THE AMERICAN ECONOMIC REVIEW

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FRANK WILLIAM TAUSSIG

Eighth President of the American Economic Association, 1904-05

Frank William Taussig was born in St. Louis, Missouri, on December 28, 1859. He died at Cambridge on November 11, 1940. Except for his early education and his excursions abroad, Taussig's academic career was entirely associated with Harvard. In 1876, after two years at Washington University, St. Louis, he migrated to Harvard and became a member of the class of 1879. After a "grand tour" of Europe, he returned to Cambridge as secretary to President Eliot and as a graduate student and later instructor in economics under Dunbar. His interests soon settled on international trade. A prize essay on protection to young industries, which served as a Ph.D. thesis and which was published as a book, initiated a sequence of volumes culminating in his masterpiece, *International Trade,* in 1927. In 1886 he received the LL.B. degree, but instead of practicing law he accepted an assistant professorship in political economy. In 1892 he was advanced to the rank of professor and in 1901 the newly established Henry Lee professorship was conferred upon him, a chair which he held until his retirement in 1935, when his title became Henry Lee Professor Emeritus.

Many honorary degrees and titles were conferred upon Taussig. He received the Litt.D. from Brown University in 1914 and from Harvard in 1916; LL.D. from Northwestern University in 1920 and from the University of Michigan in 1927; Honorary Ph.D. from the University of Bonn, 1928; and Litt.D. from the University of Cambridge in 1933. He was a member of the Academy of Arts and Sciences and of numerous learned groups here and abroad.

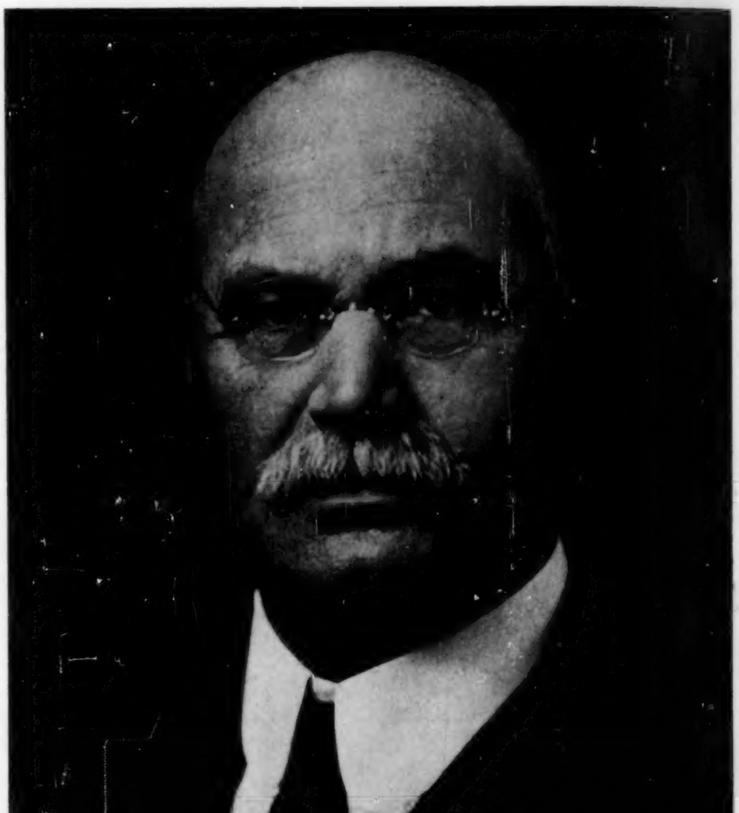
As scholar and writer, Taussig was best known as author of books on international trade and economic theory but works on problems and economic motivation indicate a wide scope of interests and achievements. A bibliography of his voluminous writings may be found in the appendix of the volume, *Explorations in Economics, Notes and Essays Contributed in Honor of F. W. Taussig,* 1936. In Taussig's contributions to the Proceedings of the American Economic Association, we find the beginnings of much that may be called "the Taussigian theory." In 1893 papers on "The Interpretation of Ricardo" and "Value and Distribution as Treated by Professor Marshall" and in 1894 "The Relation Between Interest and Profits" and "The Wages-Fund at the Hands of the German Economists" and an article on "The Quantity Theory of Money" in 1895 paved the way for the body of discipline found in *Wages and Capital* (1896) and in his *Principles of Economics* (1911, last revised, 1939). His presidential address at the seventeenth annual meeting of the Association in 1904 on "The Present Position of the Doctrine of Free Trade" outlines the general ideas which he developed in his later works in this field.

Taussig's activities as a public servant extended over a wide area of local and national affairs, the most notable being his chairmanship of the United States Tariff Commission, 1917-19, and his participation in the peace conference in Paris.

Taussig's greatest success was perhaps achieved as editor and teacher. From 1896 to 1936 he kept the *Quarterly Journal of Economics* at such a high level that it set a standard for the development of scientific economic periodicals. As a master of the art of teaching, his influence shaped the minds of many American scholars and gained for him world-wide fame as a teacher.

Obituary notices appear in the *American Economic Review,* March, 1941, by Howard S. Ellis, the *Economic Journal,* June-September, 1941, by Redvers Opie, and in the *Quarterly Journal of Economics,* May, 1941, by J. A. Schumpeter, A. H. Cole, and E. S. Mason.

Number 8 of a series of photographs of past presidents of the Association.



F. W. Taussig

The American Economic Review

VOLUME XXXIII SEPTEMBER, 1943 NUMBER THREE

EXTERNAL ECONOMIES AND DISECONOMIES

By HOWARD S. ELLIS and WILLIAM FELLNER*

I. *Introduction*

Along with its answer to the principal problem which it set for itself as to how competition allocates resources amongst various uses, neo-classical economics bequeathed to the present generation the much debated proposition that competition causes output under "diminishing returns" to exceed, and under "increasing returns" to fall short of, an output corresponding to the social optimum. Since this issue involves only negligibly any disagreement as to the economic facts, since it is indeed almost a purely quantitative problem not complicated by ethical or other preconceptions, one may find difficulty in understanding how theorists such as Marshall, Pigou, Viner, Graham, Hicks, and Lange could be ranged squarely against Allyn Young, Knight, and Stigler. The answer seems to be that apparently simple technical concepts are often fraught with confusing ambiguities; and the extensive discussion of this subject over a period of years[1] reveals that these ambiguities have already become perennial.

The effort to resolve the issues disputed amongst such distinguished protagonists is in itself an interesting undertaking in the development of theoretical ideas, but there is also no lack of pragmatic justification. The interpretation of certain commonly employed cost functions, of opportunity cost, and of marginal *versus* average cost can not be purely "academic" matters. Furthermore, the Marshall-Pigou proposals of taxes upon "industries of diminishing returns" and bounties upon those of "increasing return," and the Pigou-Graham proposals of a protective tariff in certain instances upon much the same theoretical argument, lead directly to important questions of fiscal and commercial policy. Finally the recent descriptions of price systems under socialism

* Both authors are members of the department of economics at the University of California, Berkeley.

[1] The footnotes, including n. 22, p. 503, supply a fairly complete bibliography on the subject.

show that the present issues intimately affect not only the formulation of policies in a private enterprise economy but the very concept of the socially optimum employment of resources under (a more or less ideal form of) socialism.

Throughout the period of classical political economy it was a settled but vaguely supported conviction that the price of agricultural produce tends to increase under the influence of diminishing returns, but that "it is the natural effect of improvements to diminish gradually the real price of almost all manufactures."[2] This bad mixture of a dubious "law" of economic history on the one hand, and a truncated part of the static principle of combining proportions on the other may have been engendered originally out of resentment against the Corn Laws and the landed gentry; but it seems to have been perpetuated to the present day through simple confusion. Marshall attempted to give quantitative precision to the notion that "diminishing returns" somehow represent a less favorable application of economic resources than "increasing returns."[3] His demonstration, which ran in terms of the effect of taxes and bounties upon consumers' surpluses in the two cases, is sorely limited by the author's admission that it requires quite special elasticities of demand and supply and that it assumes that marginal utility of money to be constant; and it is entirely destroyed by the failure of the author to include producers' surpluses into the social surplus to be maximized.[4]

The advocates of the tax-bounty thesis have mostly referred to Pigou rather than to the original Marshallian version of the thesis. We turn first to Pigou's analysis so far as it pertains to "diminishing returns" (in his own terminology), which includes also rising transfer costs, leaving until later the case of "increasing returns" (in his terminology), which actually means external economies.

II. *Diminishing Returns and Rising Transfer Costs ("External Diseconomies"), Without External Economies*

In *Wealth and Welfare,*[5] the first edition of the work later to be more widely known as *The Economics of Welfare,* Pigou draws two positively inclined cost functions (as in Fig. 1), the lower of which,

[2] Adam Smith, *The Wealth of Nations,* Cannan ed., (New York, 1937) Bk. I, chap. 9, p. 242 *et passim; cf.* also J. S. Mill, *Principles of Political Economy,* Gonner ed., (London, 1909), Bk. I, chap. 12, p. 184 *et passim.*

[3] Alfred Marshall, *Principles of Economics,* 3rd ed. (London, 1895), pp. 518-531; and in the corresponding chapter (Bk. V, chap. 12) in later editions.

[4] *Cf.* J. R. Hicks, "The Rehabilitation of Consumers' Surplus," *Rev. of Econ. Stud.,* Vol. 8 (Feb., 1941), pp. 112-15.

[5] A. C. Pigou, *Wealth and Welfare* (London, 1912), pp. 172-79.

labeled S_1, he calls "a supply curve of the ordinary type," and the upper, labeled S_2, "a curve of marginal supply prices." The function S_1 is further described as showing at each point the cost or price at which the corresponding output on the abscissa can be maintained in the long run, and function S_2 as showing at each point "the difference made to *aggregate* expenses"[6] by the production of one more unit. With austere brevity, Pigou concludes directly from the description of the two functions that the intersection of S_1 with the demand schedule at C corresponds to output and price under competition, whereas the intersection of S_2 with the demand schedule at I represents the correct output[7] under an ideal allocation of social resources.

In the universe of discourse of Pigou's problem, economic theory now operates with a number of cost functions presently to be de-

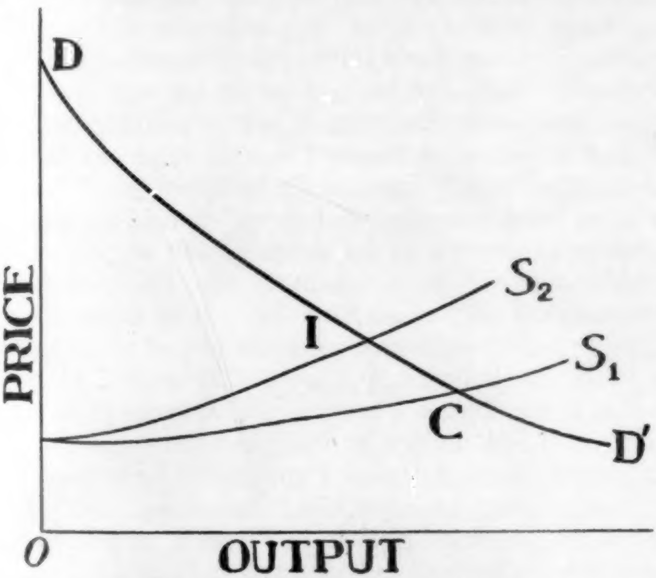


FIG. 1—Pigou's Cost Functions.

scribed; but from the exposition of *Wealth and Welfare* it is impossible to discover which of three mathematical functions Pigou intended to employ. Retrospectively, in answer to criticisms, Pigou acknowledged one possible interpretation but denied that he had intended to draw his conclusions on this basis, proposed another interpretation, and finally, even upon this interpretation, limited his thesis to a special argument concerning international trade.

[6] Our italics.

[7] By implication also the ideal price, but Pigou does not stress this.

In a review of *Wealth and Welfare* appearing about a year after the publication of the book, Allyn Young hailed Pigou's S_2 curve as a "new and powerful instrument of economic analysis" especially as applied to monopoly, but denied that it proved a divergence of competitive from the ideal output.[8] Young's criticism also did not distinguish the three interpretations we shall point out. In fact it did not need to do so, as it is equally valid upon any of them; but Pigou did not believe this to be the case, and so we must examine the merits of each separately.

The three possible interpretations of Pigou's functions arise from the fact that increasing costs in an industry may come from (1) diminishing returns due to the presence of a factor which is fixed in supply for the industry; (2) rising transfer costs due to the presence of a factor which can be drawn in greater amounts from other industries only by a rise in its price; or (3) a combination of (1) and (2). In 1920 Pigou focused attention upon the *first* interpretation by admitting it as a legitimate reading of his cost curves but not what he had intended.[9] This interpretation permits us to give unambiguous definitions to the S_1 and S_2 curves of Figure 1 and to trace out the reasoning on this basis. The "supply curve of the ordinary type," S_1, in Pigou's language is the usual "marginal cost curve," that is, the curve indicating the cost of production of the marginal unit of output; and S_2 a function which adds to S_1 at each point the *aggregate* increment of costs on all intramarginal units of output.[10] Thus, if an expansion of output from 50,000 to 51,000 units involves a rise of cost at the margin from \$1.00 to \$1.01, the ordinate of S_1 at 51,000 units is \$1.01, and the ordinate of S_2 is the difference between 50,000 times \$1.00 and 51,000 times \$1.01, or \$1,510, divided by 1000, or \$1.51.

On the present interpretation of Pigou (which he acknowledged as a possibility) increasing costs arise solely from rising transfer costs; and to make this interpretation explicit, in Figure 2 we give to S_1 and S_2, respectively, the distinctive labels of ε and γ. Pigou's S_1 (our ε) shows the cost of the marginal unit in isolation, or more explicitly: marginal cost excluding all increments of transfer cost; alternatively ε shows also *average cost* per unit of output, including transfer rent. Pigou's S_2

[8] Allyn A. Young, "Pigou's Wealth and Welfare," *Quart. Jour. of Econ.*, Vol. 27 (Aug., 1913), pp. 672-86. Edgeworth also called the function "the marginal increment of cost from the viewpoint of a monopolist"; *cf.* F. Y. Edgeworth, "Contributions to the Theory of Railroad Rates, IV: A Digression on Professor Pigou's Thesis," *Econ. Jour.*, Vol. 23 (June, 1913), p. 211.

[9] A. C. Pigou, *The Economics of Welfare*, 1st ed. (London, 1920), pp. 934-36.

[10] If the n-th unit of the output is produced at a cost of $f(n)$, then $S_1 = f(n)$, and

$$S_2 = \frac{d\,[n\,f(n)]}{dn} = f(n) + n\,f'(n)$$

(our γ) shows "marginal costs" also but in a different sense—marginal cost including the *total* increment to transfer costs *on all units*.

Pigou originally maintained that the intersection at *C* represents competitive equilibrium, but that the ideal allocation of resources would be given by reducing output through appropriate taxation to a

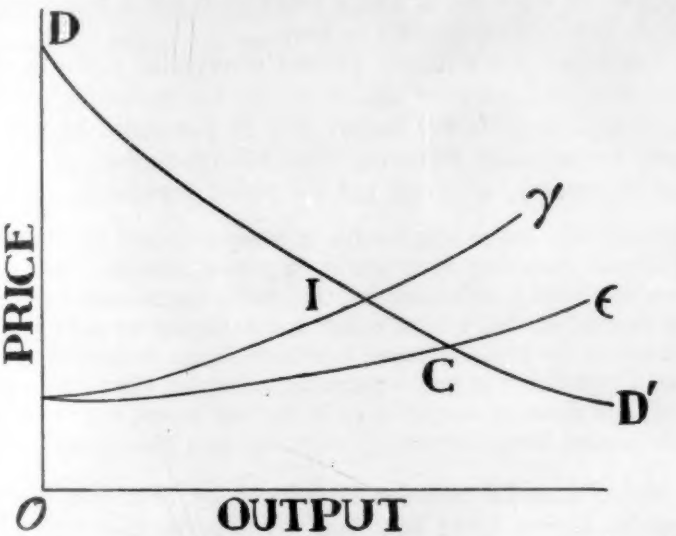


FIG. 2—Rising Transfer Costs.

magnitude given by the intersection at *I*. Allyn Young accepted this description of competitive equilibrium (as do all parties to the dispute) but denied that the *total* increment of cost to the industry could be regarded as a cost to society. In Pigou's excellent paraphrase, "In other words, according to Professor Young's view, the excess of marginal supply prices [our γ] in industries of diminishing returns [read: 'increasing costs'] over the corresponding supply prices [our ε] is merely a nominal excess of money paid, and not a real excess representing resources employed."[11]

If Young had spoken the magical word "rent," it seems probable that Pigou would have capitulated completely. For Young could have put his proposition in these words: "If the expansion of an industry gives a factor a higher per unit remuneration, whether or not that higher price induces a greater aggregate [social] supply of the factor, the units already being supplied earn producers' rents [or increase the previous rent]; and rent is not a cost in social resources." Consequently if the output of a commodity expands, the rise in transfer

[11] Pigou, *op. cit.*, p. 935.

costs (*i.e.*, in the value) of the intramarginal units of the transferred resource is not part of the marginal social cost of producing the commodity under consideration. The marginal social (opportunity) cost of transferring resources yielding n units is merely the cost of transferring the resources required for the production of the n-th unit. This cost is expressed by ε not by γ. The γ function is not a social cost curve because it includes increments to rent.

Pigou accepted this criticism without reservation so far as concerns transfer costs; and, we may add, he accepted it gracefully and without seeing, at that time, its full import. For he proceeded to argue in the sentences immediately following that his conclusions are valid for diminishing returns, although not for rising transfer costs:

> The reason why diminishing returns in terms of money [read: "increasing costs"] appear when they do appear is, in general, not that the money price of factors employed is increased, but that that proportionate combination of different factors, which it is most economical to employ when $(x + \Delta x)$ units of commodities are being produced is a less efficient proportionate combination than that which it is most economical to employ when x units are being produced; and the extra cost involved in this fact is real, not merely nominal. For these reasons Professor Young's objection, as a general objection, fails.[12]

Employing a useful notation introduced by Mrs. Joan Robinson,[13] we show in Figure 3 the functions germane to diminishing returns, transfer costs assumed constant.

Mathematically the definitions of α and β, respectively, are precisely the same as for γ and ε, since both α and γ satisfy the requirements of Pigou's S_2, and β and ε the requirements of S_1. Only the economic implication is changed: α refers to marginal cost including the total increment of Ricardian rent, and β to marginal cost excluding Ricardian rent or average cost including average Ricardian rent. The function δ, to which there is no counterpart in the case of rising transfer costs, is the familiar curve of average cost excluding rent. According to the first edition of *The Economics of Welfare*, the intersection at C shows the competitive solution, as before; and the intersection at I again is held to represent the socially ideal output, though this time on the grounds that less efficient combinations of factors signify a social "extra cost."[14]

[12] Pigou, *op. cit.*, p. 936.

[13] Joan Robinson, *The Economics of Imperfect Competition* (London, 1933), chap. 10, "A Digression on the Four Cost Curves." While her chapter fails to distinguish ε and restricts the concept of rent to "Ricardian" surplus on the fixed factor, it is in general accurate and illuminating, and has contributed indirectly very much toward the present analysis.

[14] Pigou's contention (*cf.* 1st ed., p. 194) that of two roads connecting the same two

However real the "extra cost" from these grounds, the application of Young's reasoning proves it to be adequately included in β, the cost *at the margin, i.e.,* the incremental cost in the variable factor. Unless rent is a social cost, it is erroneous to envisage the social marginal cost as including the increment to rent as in the function α.

To maximize the aggregate of producers' and consumers' surpluses, the relevant magnitude is *DCA,* not *DIA,* if the marginal utility of

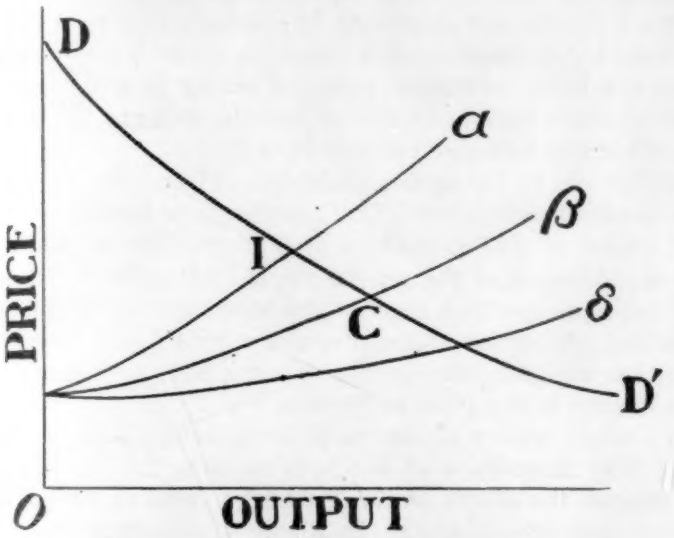


FIG. 3—Diminishing Returns.

money is assumed to be constant. Dropping the assumption of constant marginal utility for money renders it impossible to express the aggregate surplus of consumers and producers by areas lying between demand and supply curves. It still remains true, however, that the optimum output will be reached at the intersection of the demand curve with β, not α. The price will still express for each consumer the value

points the one, assumed to be superior but narrow and therefore subject to diminishing returns, is overexploited in competition unless taxed differentially, seems to have rested on the notion that competitive output is determined by the δ function. The contention was proven to be fallacious by Professor Knight, who has shown that the owner of the good road will charge a toll that will raise costs to users to the β level. *Cf.* F. H. Knight, "Fallacies in the Interpretation of Social Cost," *Quart. Jour. of Econ.,* Vol. 38 (Aug., 1924), pp. 582-606, reprinted as chap. VIII in *idem, The Ethics of Competition* (New York, 1935), pp. 217-36. Pigou omitted the "two roads" example from the second edition of his book which happened to appear almost simultaneously with Knight's criticism, and does not refer to the latter. No special significance should be attributed to Pigou's recantation of the "two roads" proposition because it was inconsistent with his own position and should have been dropped even if his position had not been modified.

of the change in total utility occasioned by the marginal unit of the commodity, although it will express this change in terms of the variable marginal utility of money rather in a constant unit of measurement.

If marginal social cost equals price, it also equals the value of the marginal addition to the utility of each consumer as expressed in terms of the marginal utility of the money stock actually owned by him. This, however, implies that, given the distribution of wealth and income, the β intersection is optimal. If resources were to be shifted out of the industry in question, each consumer would lose more utility, as expressed in terms of money, than the saving in social cost; and if further resources were to be shifted into the industry, the addition to social cost would outweigh the gain in utility.

That his reply to Young was inadequate, Pigou admitted four years later in the *Economic Journal*,[15] adumbrating a revised statement in the second edition of *The Economics of Welfare*. The revision consisted in the abandonment of the general thesis that, under increasing cost, output under competition exceeds the ideal, and the adoption of the very limited proposition that a divergence occurs only from the viewpoint of one nation against another when it pays agricultural rents to foreign owners in the price of imports.[16]

This limited version of the proposition, retained in the later editions of *The Economics of Welfare*, requires the use of functions which express the effects of rising transfer costs as well as those of Ricardian diminishing returns. In Figure 4, average costs as affected by diminishing returns but not by rising transfer costs[17] are shown by β; average costs as affected by rising transfer costs but not by diminishing returns[18] are shown by ε; and average costs as affected by both forces in conjunction are shown by ϕ. The function ϕ may be described further as marginal cost excluding all Ricardian rent and all increments to transfer rent, or as average cost including average Ricardian and average transfer rent. To this magnitude, at each point, θ adds the *total* increment of transfer rent on the intramarginal transferred units, and the *total* increment of Ricardian rent.[19] Pigou's

[15] A. C. Pigou, "Comment," *Econ. Jour.*, Vol. 34 (Mar., 1924), p. 31.

[16] A. C. Pigou, *The Economics of Welfare*, 2nd ed. (London, 1924), pp. 194-95. The third edition (London, 1929), p. 225, made no change. F. Y. Edgeworth, "The Revised Doctrine of Marginal Social Product," *Econ. Jour.*, Vol. 35 (Mar., 1925), p. 35, agreed with this version of Pigou.

[17] *I.e.*, calculated at constant transfer costs.

[18] *I.e.*, calculated as though constant returns prevailed.

[19] Mrs. Robinson makes α do double duty as a designation for marginal cost including only the total increment of Ricardian rent and as a designation for our θ. This is an undesirable ambiguity. Furthermore, since she omitted to distinguish ε, she has no

argument with respect to foreign trade would then mean that rents transferred abroad, whether those rents originated in diminishing returns or rising transfer costs, are costs to the domestic economy; the competitive purchases of such imports would run to the foreign output as determined by ϕ, whereas ideally the importing country should buy only the foreign output as determined by θ.

But even the foreign trade argument, which had been adumbrated by Graham a year[20] previous to Pigou's decision to restrict the argument to rents disbursed to foreign owners, is subject to rather severe

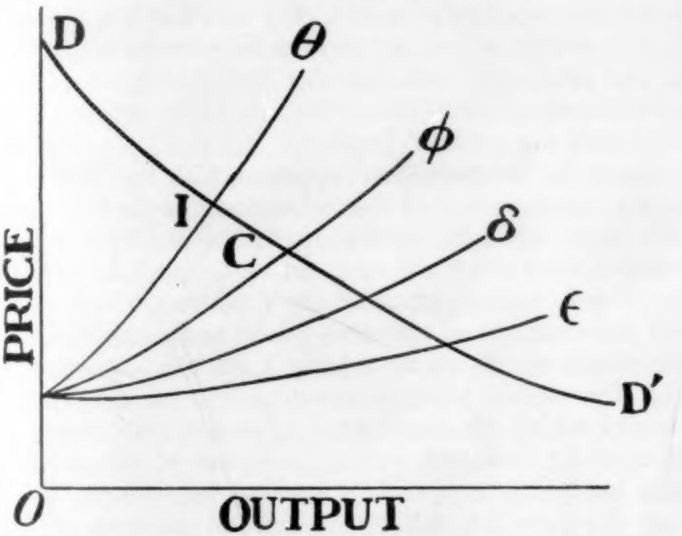


FIG. 4—Diminishing Returns and Rising Transfer Costs.

limitation if not complete rejection. After all, the doctrine of optimum allocation in all of the versions here considered is a "cosmopolitan" doctrine in that it does not distinguish between surpluses accruing to domestic owners *and consumers* on the one hand and surpluses accruing to foreigners on the other. The qualifications required to allow for policies distinguishing between the interests of domestic economic subjects and foreigners are much more extensive than would be suggested

function corresponding to our ϕ, which adds ε and β.

The functions α, lying between θ and β, and γ, lying between θ and ε have been omitted in Fig. 4; δ has likewise not been drawn.

[20] F. D. Graham, "Some Aspects of Protection Further Considered," *Quart. Jour. of Econ.*, Vol. 37 (Feb., 1923), pp. 199-227; "The Theory of International Values Re-examined," *ibid.*, Vol. 38 (Nov., 1923), pp. 54-86; "Some Fallacies in the Interpretation of Social Costs; a Reply" (to F. H. Knight), *ibid.*, Vol. 39 (Feb., 1925), pp. 324-30.

by the limitation of Pigou's argument to such increases in rents as are included in the value of commodity imports. One would have to exclude from the aggregate to be maximized all consumers' surpluses accruing to foreigners; and also all producers' surpluses accruing to foreign stockholders or other foreign owners of domestic enterprise.

The Pigou doctrine in the latest and narrowest version would lead one to believe that in a competitive world the "national"—as opposed to the "cosmopolitan"—aggregate of surpluses is increased by a tax reducing the output of industries which, by importing raw materials, increase the value of foreign resources. The cosmopolitan net surplus is surely reduced by such a tax; whether the "national" net surplus is increased or reduced depends on how the aggregate of consumers' and producers' rents accruing to domestic economic subjects changes when other industrial activities are partly substituted for those connected with raw material imports.

To replace the "cosmopolitan" approach with the "national" would require a reinterpretation of the entire doctrine no less fundamental than that which would be required if the distribution of wealth within the economy were not to be accepted as "given." In both cases the "votes" of the consumers and of the producers whose behavior determines the allocation of resources is held to be weighted incorrectly. The important qualifications arising from this consideration must either be disregarded, which means accepting the cosmopolitan point of view and taking the distribution of wealth and income as given; or they must be dealt with in the framework of a broad sociological approach extending to questions such as reprisals in international relations, the potential stability of different patterns of distribution within social communities, etc. In no event does it seem satisfactory to confine the reinterpretation of the "cosmopolitan" doctrine to industries which, by importing raw materials, give rise to foreign producers' rents.

The preceding analysis is not concerned with the genuine diseconomies arising from phenomena such as the smoke nuisance, the wasteful exploitation of natural resources, etc.

So far as concerns the present heading—diminishing returns and rising transfer costs—we have found: (1) There is no divergence between the ideal and competitive outputs. (2) Pigou originally believed that output under competition is excessive because the total increment to rent is not included as cost. (3) Under the force of Allyn Young's criticism that rents are not social costs, Pigou gradually attenuated his thesis to the case of imports produced under rising supply price. (4) Writers who invoked the authority of Pigou after 1924 on what

had once been his *general* thesis did so unjustifiably.[21] (5) Even the restricted foreign trade thesis has little or no validity as a single qualification because the entire problem would have to be reformulated if this qualification, in conjunction with more important ones, were to become valid. (6) Since rents are not social costs, the relevant cost function—one which maximizes the total of consumers' and producers' surpluses—is marginal cost in the sense of costs of the marginal unit of output alone (= average cost including average rent), that is, ε or β, and *not* marginal cost including the total increment of rent, that is, γ or α. (7) The atomistic single seller notices and acts correctly upon the costs of ε or β; he does not notice and should ignore the additional costs incorporated in γ or α.

III. *External Economies*

Economists upholding the special tax in the diminishing returns case also maintain the necessity of a bounty for the realization of external economies. One of the most debated issues in the entire discussion of the tax-bounty thesis has always been the reality of external economies.[22] Many supposed examples have proved to be spurious or far-fetched; but we do not propose to begin upon the painstaking inquiries into techniques and economic history which would be necessary to appraise the possibilities. Among the many difficulties and complexities, however, there are a few certainties.

One is that if an "external economy" is an internal economy to another *industry*, the outcome is either monopoly in the second industry, or else the complete exploitation of the internal and hence the disappearance of the external economies.[23] If the outcome is monopoly in the second industry, costs are very unlikely to decline in the first, since a monopolist will respond to a rise in demand with a reduction of price only (1) in case he is operating in the downward range of his *marginal* cost curve (and the elasticity of the new demand curve is not

[21] Oscar Lange (and F. M. Taylor), *On the Economic Theory of Socialism* (Minneapolis, 1938), pp. 98-99; Jacob Viner, "Cost Curves and Supply Curves," *Zeitschrift für Nationalökonomie*, Vol. 3 (Sept., 1931), p. 42.

[22] In addition to the literature elsewhere cited in these pages, see the following: J. H. Clapham, "Of Empty Economic Boxes," *Econ. Jour.*, Vol. 32 (Sept., 1922), pp. 305-14; A. C. Pigou, "Empty Economic Boxes: A Reply," *ibid.*, Vol. 34 (Dec., 1922), pp. 458-65; *idem* and D. H. Robertson, "Those Empty Boxes," *ibid.*, Vol. 34 (Mar., 1924) pp. 16-31; G. J. Stigler, *The Theory of Competitive Price* (New York, 1942) pp. 106, 142-44; K. E. Boulding, *Economic Analysis* (New York, 1941), p. 194; Joan Robinson, *op. cit.*, Appendix, pp. 337-43.

[23] Thus Knight, *op. cit.*, p. 229, and "On Decreasing Cost and Comparative Costs," *Quart. Jour. of Econ.*, Vol. 39 (Feb., 1925), pp. 331-33; and Joan Robinson, *op. cit.*, p. 340.

sufficiently smaller than was that of the old one to offset the downward slope of the marginal cost curve); or (2) if the new demand curve is *more* elastic than was the old one (and the upward slope of the marginal cost curve in the relevant range is insufficient to offset this circumstance).

Usually the monopolist will raise his price if demand increases, in which case such economies as are internal economies in the "second"

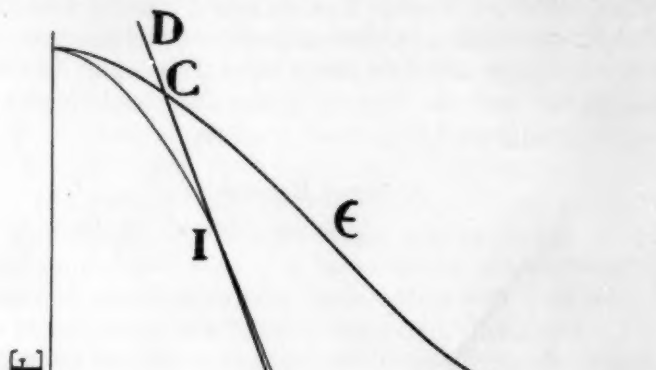


FIG. 5.—External Economies in the Absence of Diminishing Returns and Rising Transfer Costs.

industry will not lead to the realization of economies in the "first" industry. As Mr. Sraffa has suggested, the concept of external economies may, however, be rescued by illustrations not depending upon lowering the price of a commodity supplied by another *industry*, but upon the better rendering of *services*.[24] The development of a skilled labor force, the migration of suitable labor, the appearance and progress of professional and trade associations and journals, and the like, are not to be dismissed as unrelated to output in every case.

When and if external economies exist, they must be incorporated

[24] Piero Sraffa, "Laws of Returns under Competitive Conditions," *Econ. Jour.*, Vol. 36 (Dec., 1926), pp. 535-50.

into the structure of economic theory; but it must be confessed that the theoretical treatment of this subject still leaves much to be desired. The first step in reconstruction is a clear description of the cost functions and of competitive equilibrium.

In Figure 5 we assume that there is no "scarce" factor for this particular industry, and that its demand for factors is atomistic so that an extension of output does not cause rising transfer costs. The function ε signifies, as in earlier contexts, average cost, or marginal cost in the sense of costs for the marginal output in contrast to smaller outputs.[25] The function ψ is defined somewhat analogously to γ and α as the total cost difference on *all* units (marginal and intramarginal). If there are no external economies (or none unexploited), ε and ψ coincide in a horizontal line; if there are, ψ lies below ε. Thus without economies the per unit cost might be $4.00 for all outputs. With economies the first "unit" costs $4.00 if only one unit is produced; if "two units" are produced the second unit costs $3.00 and the costs of the first unit also decline to $3.00. At an output of two units $\varepsilon = \$3.00$, $\psi = \$2.00$.

We employ the symbol ε because external economies have exactly the opposite significance *to the industry* as rising transfer costs. One must be on guard against an extension of the meaning of ε from the behavior of *output* costs to the price of the variable factor; if ε declines because of external economies, factor price almost necessarily rises. This probable rise, however, is disregarded in the graphic representation and in the foregoing example, where the industry in question is assumed to be atomistic and consequently constant factor prices are assumed.

The equilibrium to be expected from competition is determined by the intersection of DD' and ε. The costs of production at the margin will be equated to price. The circumstance that further expansion of the industry would reduce intramarginal costs will not produce such an expansion, since to the right of C costs at the margin fall short of price. Now it has been argued that optimum allocation in these circumstances requires subsidizing the industry under consideration in such a manner as to make its output expand to I, corresponding to the intersection of DD' with ψ (instead of ε).

This argument was presented by Pigou at the time when he first attempted to establish the proposition that increasing cost industries tend to overexpand in free competition. But while the proposition relating to increasing cost industries was gradually limited to the foreign

[25] On the assumption of free competition, costs to all firms are the same for their equilibrium outputs.

trade proposition previously discussed, the thesis that decreasing cost industries do not expand sufficiently was and is maintained by him and other authors.[26] It is worth pointing out that shifting resources into decreasing cost industries is not the same thing as shifting resources out of competitive increasing cost industries, since competitive industries may also operate under constant costs, not to speak of industries operating under monopoly and monopolistic competition. Besides, the proposition that the social optimum output of increasing cost industries is determined by S_2 functions (rather than S_1 functions)[27] would be basically different from the proposition that the social optimum output of decreasing cost industries is determined by S_2 functions (rather than S_1 functions), even if subsidizing decreasing-cost industries could be carried out only by taxing increasing-cost industries. We shall now be concerned with the second of these two propositions.

The reasoning by which it can be shown that the argument relating to increasing cost industries is faulty does not affect the validity of the argument relating to decreasing cost industries. The crucial point here is that, while in conditions of increasing supply price, the *rise* in intramarginal costs is rent rather than social cost, the *decline* in intramarginal costs attending the expansion of decreasing cost industries is a social economy, *i.e.*, social cost with a negative sign. One might therefore conclude that in conditions of decreasing supply price the ψ function expresses marginal social cost; and that the social optimum output is I instead of C.[28] The competitive output, one might conclude, is determined by the socially "incorrect" cost function ε, which fails to express the marginal saving in intramarginal social cost, that is, the saving in social cost on intramarginal units of the resource attending the increase in total output by a marginal unit. The ψ function contains the necessary correction; and a permanent bounty inducing the production of I is required to achieve optimum allocation. It would have to be added that a two-dimensional presentation, like that in Figure 5, overstates the deviation from the optimum in case the industry is not atomistic. In this event the ψ curve shifts upward as output expands, since opportunity costs rise as resources are shifted away from other employments.

This conclusion is correct if the external economies are "reversible": the ψ function actually expresses marginal social cost in case the

[26] A recent exposition of the thesis is found in Hicks, *op. cit.*

[27] *Cf.* Figure 1.

[28] We mean, of course, the corresponding distances along the abscissa. In the event of more than one intersection the optimum is reached at the intersection maximizing the expression $\int [D(x)-\Psi(x)]dx$, where $D(x)$ is the demand curve.

economies appear with an expansion of output, but *disappear* if and when output subsequently contracts.[29] In the event of irreversibility the problem acquires different characteristics, however. It may be suggested that irreversible external economies are much more significant than are reversible ones. Certain industries must usually reach some stage of growth before a geographical region starts to develop significantly and also before human and material resources become more specialized. But it is rarely true in these cases that a contraction of the output of any one industry would lead to a loss of the economies in question.

If irreversible external economies are potentially present, competi-

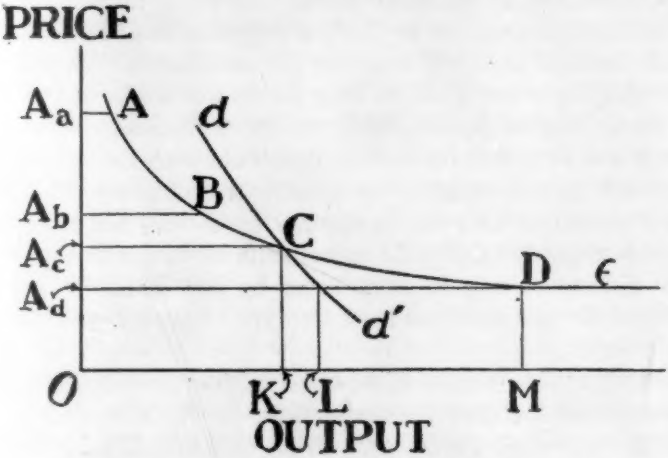


FIG. 6—Irreversible External Economies in the Absence of Diminishing Returns and Rising Transfer Costs.

tive equilibrium fails to achieve optimum allocation; at the same time *l* ceases to be the optimum output and the bounty required to achieve optimum allocation is temporary.

In the circumstances now considered the ψ function loses its significance. What happens in conditions like these can best be expressed by the statement that the ε function shifts permanently as we move downward along the curve.

Assuming that transfer costs remain unaffected by the output of the industry in question and that the industry does not give rise to Ricardian rents, there will be a point (D) on the ε curve to which an output (OM) corresponds that exhausts all potential external econo-

[29] As was pointed out in the preceding paragraph, the function ceases to be a *curve* if the industry is not atomistic. In this event Ψ is a function of more than one variable. The "curve" shifts upward when output expands, and downward when it contracts.

mies. Once that output is reached, the ε curve will intersect with the ordinates at *Ad* and it will be horizontal throughout its course. Before any output whatsoever is produced, the path of the function is marked by the points *A, B, C, D;* the curve is horizontal only to the right of *D.* If a point lying along the curve (such as *A* or *B*) has already been realized, a movement backward, toward the ordinate, occurs along a horizontal line (such as AA_a *or* BA_b); whereas a movement forward, toward *D* occurs along the still unused portion of the original function (such as *ACBD* or *BCD*).

To say that external economies are mostly of this kind, instead of being "reversible," may be interpreted to mean that they are typically *dynamic* phenomena. Whether shifts like these should be excluded from equilibrium analysis as Knight suggests and then relegated to "dynamic theory" is clearly a matter of convenience. The opinion may be expressed, however, that, so long as certain shifts of functions are on the same level of predictability as are movements along the functions, it is not very fruitful to distinguish between two types of theory dealing with these two kinds of changes respectively. The shifts reflecting irreversible external economies surely are not always on the same level of predictability as movements along given supply curves. But the difference may in some cases be insufficient to warrant the exclusion of the phenomenon from the type of theory we are concerned with at present.

Returning now to Figure 6, we observe that the conditions sketched there would, in the first approximation, justify a temporary bounty raising the output of the industry from *OK* to *OM* and thereby producing the lowest obtainable social cost curve for the commodity. After the discontinuation of the bounty the output of the industry drops to *OL* and social net output is higher than it was prior to the interference and higher than it would be if the bounty were continued. We said this conclusion was justified only "in the first approximation" because it disregards the waste involved in moving temporarily an excessive stock of resources into the industry under consideration. The perpetual income stream yielded by the capital value of the temporary excess of resources is a loss to be counted against the decline in social cost if the excess of resources (corresponding to the temporary excess output *OM* minus *OL*) is completely immobile. The more mobile the excess is, the smaller does the loss become.

Moreover, by directly subsidizing certain processes, such as migration or the specialization of resources, it may be possible to induce, at the "permanent" output level *OL,* the economies that would develop automatically at the output level *OM,* and thus to avoid the detour over the excessive output *OM*. Such temporary subsidies, raising

the output of the industry from *OK* directly to *OL*, might in certain circumstances achieve the maximum obtainable saving in social cost, with no sinking of an excessive stock of specialized resources into the subsidized industry. The detour over *OM* does involve costs of this character. If the costs of a detour are unavoidable the true optimum output which takes account of these costs may be different from *OL* since the temporary excess of output is not the same for the different potential final outputs.[30]

In the preceding pages we considered external economies in isolation, disregarding diminishing returns and rising transfer costs. If, as seems plausible to assume, external economies occur in conjunction with the two cost-raising forces functionally related to industry output, the fundamentals of the preceding analysis are not altered. For a comparison of competitive output with social optimum output it is not necessary to divorce the two *cost-raising* forces from one another, since neither of them upsets the identity of the two outputs in question. But it is necessary to divorce the *cost-diminishing* forces from those *raising* cost, because the divergence of social optimum output from competitive output is determined by the *cost-diminishing* forces, regardless of whether the interaction of all forces makes for increasing, constant or declining supply price.

It should be repeated in this connection that statements like the foregoing one imply that it is fruitful to include in equilibrium theory the analysis of certain phenomena that in a sense are "dynamic," *i.e.*, that reflect themselves in shifts of the curves used in traditional equilibrium theory. Reversible external economies, not implying shifts of the curves, are in all probability unimportant. Whether it is fruitful to take account of "dynamic"—that is, irreversible—external economies in this type of approach depends on the degree of predictability, or, as it may be expressed alternatively, on the "regularity" of the phenomenon called external economies. Inclusion into the body of equilibrium theory may be warranted in some cases, but certainly not in all cases in which costs are declining "historically."

IV. *Summary*

We have found that diminishing returns and external diseconomies (rising transfer costs) do not result in a divergence between social and competitive costs. Social cost equals resource (opportunity) cost, *i.e.*, the cost of production of additional or marginal units. If this cost

[30] If the distance between the demand curve and the original curve increases monotonously to the right of *OK*, then the temporary excess will be smaller for final outputs smaller than *OL*.

advances because of diminishing returns or rising transfer costs, the higher cost to society is completely exhausted by a price covering the increment to costs on marginal units. The increment to rents on intramarginal units are not social costs; they do not enter into competitive supply prices and they should not. The statement made by certain writers[31] that an ideal allocation of resources requires that production be guided by "marginal cost," and not by "average cost" as it is under competition is either meaningless or erroneous. It is meaningless because cost *including* the total increment to rent on intramarginal units (γ, α, and θ)is "marginal cost" in one sense; and cost on the marginal units excluding these rents (ε, β, and ϕ) are also "marginal costs" in another sense; and because the second set of functions, forming the supply curves under competition, are both "marginal" and "average," according as the cost is computed incrementally without rent, or averaged including *average* rent. The statement is wrong if it means that functions such as γ, α, and θ represent social costs.

When unexploited external economies exist, competitive output falls short of the optimum. But again this can not be expressed for all cases as a divergence of "average" and "marginal" cost, the former being represented as the correct guide. In the case of "reversible" external economies—those which disappear when the subsidy is terminated—a marginal function such as ψ, which subtracts from the increment to costs attributable to the marginal unit in isolation the decrement to costs on intramarginal units occasioned by the external economies, should be regarded as the true social costs function.[32] But in the case of "irreversible" economies, the contrast of average and marginal costs can not be used to indicate the divergence of competitive from social costs, inasmuch as the economies simply cause a downward shift of average costs as a horizontal function up to each realized output; "marginal," as anything distinct from this successive lowering of average costs, has no meaning.

Retrospectively, it is also worth remarking that the "atomistic" character of one producer's output under competition, frequently thought to be crucial in the external economies—diseconomies context, is not decisive of itself. In the "diseconomies" case, as we have seen, the private calculus of the single competitive producer results in no divergence of competitive and ideal output, for rents are not social costs. Where there are *genuine* diseconomies ignored by the competitive producer—smoke nuisance, wasteful exploitation of re-

[31] Lange, *op. cit.*, pp. 98-99, n. 2; A. P. Lerner, "Statics and Dynamics in Socialist Economies," *Econ. Jour.*, Vol. 47 (June, 1937), pp. 253-70.

[32] Ψ, as was shown, is a function of more than one variable, and hence not a curve, if the industry in question is not atomistic.

sources, etc.—these results follow not from the atomistic character of production, but from technical or institutional circumstances as a consequence of which scarce goods are treated as though they were free; and the divorce of scarcity from effective ownership may be equally complete for atomistic, oligopolistic, and monopolistic private enterprise.

The divergence of competitive from ideal output under external economies is more closely related to the atomistic position of the single competitor because, to the monopolist, ψ functions are the marginal cost functions if the economies are reversible; and he may take account of the downward shift of the ε functions if the economies are irreversible but predictable. It must not be overlooked, however, that, on the demand side, precisely the same circumstance—the non-atomistic position of the single producer—leads to the determination of output by marginal revenue which falls short of demand price. This in and of itself always tends to reduce output below the competitive level.

We have found theoretical possibilities of achieving by state interference more external economies than are given by competition; but it is, to say the least, doubtful whether frequent or extensive interference would be justified in practice upon this basis. Where economies are such as to be permanent (irreversible) once the requisite output is developed, we have an almost perfect analogy with the infant industry argument for tariffs, and little more need be said to emphasize the pitfalls.

The departure of the economist's *free* competition from the ideal of social costs is in fact negligible for external economies and non-existent for the cost-increasing forces. The departures of *actual* competition and the manifold other market forces from free competition are striking, just as the departures of actual forms of the corporate state, socialism, and planning from more or less ideal prototypes might also be striking.

THE BEVERIDGE REPORT

By EVELINE M. BURNS*

Not since the publication of Keynes's *Economic Consequences of the Peace* has any work by an economist attracted such world-wide interest, both professional and popular, as has the Beveridge Report.[1] At first sight such wide acclaim is difficult to explain, for social insurance has not in the past notably raised the emotional temperature of the general population or enlisted the active intellectual interests of any large number of economists. Certainly the interest which the Report has aroused cannot be attributed to the readability of the document. For despite the persuasive and reasonable approach of the author and some moving and eloquent writing, notably in Part VI, it makes difficult reading, especially for the non-British reader, who is plunged almost at the outset into technical discussions of the place of Approved Societies in the administration of disability insurance and of the case for and against retention of a special scheme of workmen's compensation. Because of the method of organization adopted by the author a clear picture of the scheme as a whole and in its details involves constant reference back and forth, including continuous reference to Appendix A, the Memorandum by the Government Actuary, a task which is the more troublesome because of the absence of an index.

Undoubtedly the main reason for the popularity of the Report must be sought in the temper of the times. It is the first concrete evidence that the generalizations about the better post-war world have content behind them. In addition, the plan in its broad outlines has the great advantage of simplicity. The concept of a single, all-embracing scheme, insuring the entire population against the major economic risks of life, providing uniform benefits adequate to live upon and financed by uniform contributions, can be understood by all. But for the economist interested in social insurance and allied measures the Report is also exciting, because of the ground covered, the breadth of vision

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[1] *Social Insurance and Allied Services*. Report by SIR WILLIAM BEVERIDGE. American edition reproduced photographically from the English edition and published by arrangement with His Majesty's Stationery Office. (New York: Macmillan, 1942.)

and close reasoning of the author and the many implications of the proposals made. In terms of social insurance history it marks the end of one epoch and the beginning of another.

I. *The Main Outlines of the Plan*

It should be noted first of all that the Report is essentially concerned with assuring freedom from want, in so far as want is due to interruptions of income or to the occurrence of costs unrelated to income to which all or the vast majority of the population are at some time or other liable. Despite frequent allusions to the necessity for more sweeping or far-reaching changes, such as the general proposals for a free medical service, or the reiterated emphasis upon the need for assurance of full employment, the body of the report and all its detailed proposals are limited to income maintenance.

The specific risks against which the Plan would afford protection are very numerous. Sir William lists eight primary causes of need: unemployment, disability, loss of livelihood by a person not dependent on paid employment, retirement through age, marriage needs of a woman, funeral expenses, childhood and physical disease or incapacity. For all except the last, detailed provision is made. The special provision for married women's needs is especially noteworthy.[2]

Not all of these risks are experienced by the entire population. The Report divides the population into six groups, each of which will be protected against the risk or risks common to that group as a whole, and each of which will pay a uniform contribution whose amount will depend upon the variety of risks insured against. The six classes are: (I) employees, *i.e.,* persons whose normal occupation is employment under contract of service; (II) others gainfully occupied including employers, traders and independent workers of all kinds; (III) housewives, *i.e.,* married women of working age; (IV) others of working age not gainfully occupied; (V) those below working age; and (VI) those retired above working age.

Persons in Class I will be insured against loss of income due to unemployment, disability (including occupational hazards) and inability to earn because of old age. Those in Class II will be insured against loss due to old age or permanent disability. Married women (Class III) will be protected against the extra costs of maternity, marriage, the risks of widowhood and separation and, as the partners of

[2] In addition to the by now familiar protections against the loss of a breadwinner (through widowhood or separation) and the interruptions of the husband's earnings (through unemployment, disability or retirement) the Report recognizes special needs of women incident to marriage and maternity and also provides for paid assistance to the housewife if she is physically incapacitated for household duties.

their husbands, will participate in old age, unemployment and disability benefits. Persons in Class IV will be protected against income loss due to old age and permanent disability and, if dependent upon a breadwinner whose source of income has disappeared, they may secure training to fit them for paid employment. Those in Class V will receive children's allowances which will be paid in respect of all children when the responsible parent is in receipt of insurance benefit or assistance and in respect of all except the first child in all other cases. Those in Class VI will receive pensions on retirement due to old age. Finally, the entire population will be protected against the two risks which are common to all regardless of family status, age, occupational classification or income—namely, ill-health and death—through a comprehensive and free system of medical care and rehabilitation and by universal funeral benefits.

The Report proposes to assure income and to meet extra family and personal costs of child bearing and death almost wholly through the device of social insurance, that is to say, by cash payments which can be claimed as a right by insured contributors and their families without undergoing a test of need. There are no work programs or special measures for youth: the only detailed provision for anything other than a cash payment is the proposal that training should be a part of the provision made for certain specified groups.

But while social insurance is to be the major instrument for securing income-maintenance, the Report recognizes that "it cannot be the only one . . . assistance is an indispensable supplement to social insurance, however the scope of the latter may be widened" (pp. 20-21). Accordingly, provision is made for a public assistance system which will give "cash payments conditioned upon proved need at the time, irrespective of previous contributions but adjusted by consideration of individual circumstances." This public assistance system will be the sole form of public aid available to needy persons in Classes II and IV who have been exempted from social insurance contributions because possessing an income of less than £75 a year, for those who cannot satisfy the modest contributory requirements at the time of making a claim, and for those who have been disqualified from insurance by failure to comply with other requirements. At the same time it will always be available to supplement insurance benefits where special circumstances create abnormal needs, *e.g.*, for special diet, household emergencies and the like. In view of the wide scope of the insurance system, the rôle of public assistance will be relatively small, although for the next twenty years it will be invoked extensively to supplement the pensions payable to the aged.[8]

[8] A further, but minor exception to the general policy of providing security through

The income-maintenance benefits provided by the Plan are frankly based upon the principle that they should "secure for all normal cases an income adequate for subsistence" (p. 76). In conformity with this principle, the Plan differentiates between individual benefits only to the extent that there is a reasonable basis for assuming that the costs of subsistence are lower for some groups of individuals than for others, *e.g.*, married women living with their husbands would receive smaller benefits than single women, children receive smaller allowances than adults. And in view of the relatively slight geographical differences in costs of living for all items except rent, the Plan provides for no geographical differentials in the money equivalent of the real standard. The principle of flat rates of benefit is departed from only in regard to persons permanently disabled as a result of industrial injury or disease; for these, the benefit will be a percentage of wages or the flat rate of benefit, whichever is the larger.

The financing of the scheme relies in large measure on social insurance principles. Sir William estimates that by 1945 the scheme as a whole would involve expenditures of £697 millions, divided between the various services as follows (p. 104):

	£ millions
Unemployment benefit, including training benefit	110
Disability benefit other than industrial	57
Industrial disability	15
Retirement pensions	126
Widows and guardians benefit	29
Maternity grant and benefit and marriage benefit	8
Funeral grant	4
Administration	18
Total Social Insurance	367
National Assistance, including administration	47
Children's Allowances, including administration	113
Health and Rehabilitation Services	170

Family allowances and public assistance are to be paid for out of general tax funds. But toward the cost of all other benefits employers and all individuals of working age other than non-gainfully employed housewives (who will be insured through their husbands) will pay a

benefits payable as a right irrespective of the resources of the claimant occurs in regard to aged persons and widows whose benefits are to be reduced on account of earnings. The reduction will, in effect, allow them to retain a proportion, but not the whole, of their earnings in addition to full benefit.

single contribution. The amount of the tax will depend upon the group to which the individual belongs, since this in turn will determine the range of benefits that can be claimed.

The contributions of employers and workers will, however, pay only a part of the total costs, even excluding children's allowances and public assistance. The remainder is to be provided from the general tax revenues. Of the £697 millions, which includes the cost of both children's allowances and the projected national health service, 28 per cent would come from workers' contributions, 20 per cent from contributions from employers, 2 per cent from interest on existing social insurance funds, and 50 per cent from the Exchequer.

The unified contribution from employers and workers is arrived at by a summation of contributions for the different types of benefits, the division of costs between the three parties varying considerably on each. Thus, while as already pointed out, the state pays 100 per cent of the costs of children's allowances and public assistance, it will bear one-third of the cost of unemployment benefit, one-sixth of the cost of retirement, disability and maternity *benefits* and of industrial disability not covered by the special industrial levy, and will make up whatever may be the difference between the £40 millions of income from contributions to be earmarked for health services and the actual cost of these services. In addition, for both funeral benefits and retirement pensions the state will meet the costs of bringing in the existing population of all ages for the ordinary benefits at the flat rate of contribution. In the case of old age this will be a very substantial charge.

The respective contributions of employer and worker also vary for the different risks. Thus, the joint contribution is shared equally in regard to unemployment, disability (other than that covered by the special industrial levy in industries scheduled as hazardous) and retirement and widows' pensions. On the other hand, insured persons pay the entire contribution for funeral, marriage and maternity *grants*, and most of the contributory income earmarked for health services.

The administrative arrangements proposed are very simple. The central government will be responsible for the entire income-maintenance program, to administer which a new Ministry of Social Security is to be created. It will operate through its own local offices in each of which there will be an Advice Bureau to which every person in doubt or difficulty can be referred and be put in touch with the various social services, official or unofficial, state or local, which may be appropriate for his needs.

There is also to be set up a Social Insurance Statutory Committee,

independent of the Minister but with no executive powers. It will be the duty of this body to make reports on which the Minister and Parliament decide, upon such matters as the financial situation of the Social Insurance Fund, the adequacy of benefits, Rules and Regulations which are proposed by the Minister, and any other matters connected with the comprehensive program referred to it by the Minister.[4]

If the proposal for the nationalization of industrial assurance is adopted, there will be created a new central agency, an Industrial Assurance Board, to administer the program. The administrative arrangements proposed for the contemplated national health service are still somewhat vague, as would be expected in view of the very general character of the plan as outlined in the Report. It is, however, proposed that at the central level the Ministry of Health should be responsible for the program. Just what part will be played by the local authorities will depend upon the character of the scheme that results from the negotiations now under way between the medical profession, the local authorities, and the government.

II. *The Relationship of the Proposals to the Existing System*

Despite the claims that have been made for the Report in some quarters and Sir William's own statement that "A revolutionary moment in the world's history is a time for revolutions, not patching" (p. 6), there is little that is revolutionary in terms of the British background and pre-war environment. Sir William himself has more truly described his Report when, after summarizing the features common to the new scheme and the old, he states: "The scheme proposed here is in some ways a revolution, but in more important ways it is a natural development from the past" (p. 17).

It is no disparagement of Sir William's brilliant work to say that it should rather be regarded as the culmination of thirty years of policy evolution which began with the famous Poor Law Report of 1909. That monumental Report was epoch-making in two respects. It placed upon the record the shocking facts of poverty and destitution and demonstrated the futility of the social measures which had hitherto been adopted for combatting these evils. And it proposed new methods of attack upon the problem which involved a sharp departure from the

[4] The Plan further envisages the creation in every industry scheduled as hazardous of statutory associations of employers and workers. Subject to the approval of the Ministry of Social Security, these bodies will be responsible for drawing up, and to some extent administering, plans for the reduction of industrial hazards in their own industries, and for supplementary benefits for injured workers.

old undifferentiated and unconstructive approach of the poor law (or general relief) system.

In the succeeding years the "break-up of the Poor Law" or, to use American terminology, the categorization of dependency, proceeded very far. Sir William himself contributed materially through the introduction of Unemployment Insurance in 1911. One by one various groups—the unemployed, the aged, the sick—were removed from the ambit of the Poor Law and given special treatment, which increasingly over the years took the form of Social Insurance.

Taken as a whole, the present system bears very favorable comparison with that in any other part of the world, except perhaps New Zealand, for there are no serious gaps in protection which result in a denial of basic security to any needy individual. But the emphasis is still on palliative rather than on preventive measures, on income-maintenance rather than on eradication of the evils that give rise to a need for socially provided income.

Furthermore, as a result of the piecemeal manner in which reforms were carried through over thirty years, the system today exhibits inconsistencies and anomalies. New programs have been superimposed on old, and the rationality of the differing treatment given to groups in need for various causes is no longer apparent. Concessions made to certain interest groups at the inception of certain programs have survived long beyond the period for which they were a necessary expedient, and now impede both efficient service and economical administration. Administrative arrangements and restrictive clauses, inevitable when programs were first introduced with limited coverage, have not been modified in the light of the potentialities of the increasingly comprehensive scheme. It is noteworthy that the need for a more rational organization of the income-maintenance services was strongly emphasized by almost every organization which presented evidence to the Beveridge Committee.

At the same time there has been a remarkable change in British public opinion over the last thirty years as to the responsibility of the community toward the economically insecure and as to the form public provision should take. The change has primarily been due to increasing familiarity with, and growing confidence in, the principle of social insurance. The concept of a right to stated benefits and services which was introduced in 1911 represented a sharp departure from the older view that poverty was the fault of the individual, and that assistance when needed should be given through the Poor Law under deterrent conditions. To the vast majority of British workers this deterrent treatment has come to be identified with the requirement to undergo a family

or household test of need (the means test), and social insurance, which obviates this necessity, has been highly prized accordingly. Social insurance, originally introduced for limited types of risks and, in the case of unemployment insurance, for a relatively small and selected group of workers only, was accepted because of its analogy with private insurance and because the economic risk due to any possible encouragement of personal irresponsibility seemed carefully circumscribed.

Over the last 30 years, however, the contrast between treatment under the Poor Law and under social insurance, and the very convenience of the latter instrument for handling a large and unexpected volume of unemployment, led to insistent pressure for the extension of the insurance system, or, when this was found socially inexpedient, for an improvement in the character of the alternative Poor Law or Public Assistance. As a result, by 1940, social insurance was in fact very widely utilized to assure income maintenance. And the system of public assistance, as operated for instance by the National Assistance Board, had come to possess many of the features of social insurance, *e.g.*, statutory scales of allowances, a greatly modified test of need subject to many legally exempted items, and rights of appeal for the applicant. Simultaneously, this revised assistance system, whose scales were necessarily based on costs of subsistence, began to exert an upward pressure on social insurance benefits.

Thus, by the outbreak of the war, not only had social insurance come to be accepted as the most desirable method for providing income security but also the view that benefits should cover the normal costs of subsistence was receiving a growing measure of approval. The evidence submitted to the Committee shows this very clearly. Demands for extension of social insurance coverage figured prominently in the memoranda submitted by the various organizations, while four organizations (Political and Economic Planning, the Fabian Society, the Liberal Party Committee and the National Council of Women) urged that benefits for all programs should be at a subsistence or human needs standard, while the Trades Union Congress and the Parliamentary Committee of the Coöperative Congress urged money rates of benefits which exceeded those suggested in the Report.

In this context it can be seen that the Beveridge Report is evolutionary, rather than revolutionary. The great contribution of the author consists in his recognition of the fact that the end of one stage of development had in fact been reached and that the time was ripe for the reorganization and new unification of the various programs in conformity with the changed social attitudes.

The most noteworthy departures from past policies in the Beveridge

Report are (1) the introduction of the principle of public participation in the costs of rearing all children (as against merely the children of persons dependent on public aid), (2) the suggestion that the state should take over funeral benefit insurance and small life assurance up to £300 (industrial assurance), and (3) the frank acceptance of the doctrine that the benefits of all the income-maintenance programs should be based upon the normal costs of subsistence. A fourth major innovation, the proposed comprehensive and free health service, will not be discussed here because, except for a rough estimate of its costs, it is referred to only in broad and general terms in the Report.

(1) The proposal to provide children's allowance from general tax funds for all children in excess of one, in the case of parents not receiving insurance benefit or assistance, and for all children of parents in receipt of some form of public aid, has received a wide measure of approval in Great Britain and was among the proposals formally accepted by the government. Even the trade unionists which until recently had opposed children's allowances for fear of their possible disadvantageous repercussions on wage levels have come round to approval of the plan. Such unanimity of approval is not surprising to those who are familiar with the British background. Quite apart from those who, like Miss Eleanor Rathbone and Sir William himself, have urged this policy on general principles for over twenty years, the pressure for children's allowances has been greatly intensified by the expanded concept of social insurance and by the war.

The increase in the money value of social insurance benefits and the provision of benefits for dependents had created real problems of disproportionality between wages and benefit in the case of low-paid and prolific workers, which had caused growing concern in the last ten years. (See, for example, the Reports of the Unemployment Insurance Statutory Committee around 1937.) Hitherto the problem had been experienced mainly in unemployment insurance and assistance, but adoption of the Beveridge proposals to raise benefits on health insurance and workmen's compensation and to increase the real and money levels of benefits even on unemployment insurance (especially for children) means that the problem can no longer be ignored. Even before the war it was evident what the British answer would be: the doctrine of maintenance had secured such acceptance that a reduction in benefits or the use of a wage stop clause was out of the question. The alternative was to increase the social adequacy of the wage system by providing allowances for all children. To this evolutionary pressure has been added a growing population consciousness due to the war.[5]

[5] In the words of Sir William, "With its present rate of reproduction the British race

(2) The suggestion that the state should take over funeral insurance and industrial assurance up to £300 represents a departure from existing British policy of a different kind. Here Sir William appears to base his plea for an extension of public enterprise less on the grounds of the essentiality of this step to assure freedom from want than on the argument that certain types of services of which these are examples are peculiarly suited to public operation. Such services are characterized by a widespread demand for them, by being articles as to whose value in relation to other things it is difficult for the buyer to judge, and by offering the possibility of great administrative economies if operated as a state monopoly.

Accepting this view of the criteria for state operation, the case in favor of nationalizing industrial assurance and other forms of funeral insurance is strong. Drawing on an extensive series of committees of inquiry (the findings of which are summarized in an Appendix to the Report), Sir William has little difficulty in showing that the existing system of industrial assurance is wasteful, and pushed to a point beyond the interests of the public as buyers of insurance. It is characterized by excessive costs of administration, and the proportion of policies failing to reach maturity is staggeringly high.

The proposal that the state should take over all small life assurance up to £300 and not merely the smaller proportion which is primarily funeral insurance is regarded by Sir William as among his "bracketed recommendations"; *i.e.*, those which are not absolutely vital to the plan. His supporting argument rests partly on the general reasoning given above and partly on administrative expediency: namely, that industrial assurance is so closely associated with funeral insurance, which is in any case to become a state undertaking, that a separation of the two would be very difficult.

(3) The third major change introduced by the Beveridge Plan, the proposal that all the income-maintenance services should be based upon the normal costs of subsistence, is of fundamental importance. Hitherto the *official* position has always been that there was no necessary connection between the two, despite the developments to which attention was drawn above, and which by the early 1930's had caused unemployment benefits to compare very favorably with the great majority of public assistance scales which were admittedly on a maintenance

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cannot continue: means of reversing the recent course of the birth rate must be found ... children's allowances can help to restore the birth rate, both by making it possible for parents who desire more children to bring them into the world without damaging the chances of those already born, and as a signal of the national interest in children, setting the tone of public opinion . . . the small families of today make it necessary that every living child should receive the best care that can be given to it" (p. 154).

basis. Nevertheless, the dependents' benefits, even on Unemployment Insurance and especially those for children, were below the costs of subsistence, and the benefits of the two other major insurances—old age and survivors' pensions and health insurance—continued to be far below this level. One consequence of this situation has been a substantial amount of supplementation of insurance benefit by public assistance, especially for the aged and the sick.

In addition to these three major innovations, the Beveridge Report involves a number of other important changes in the existing British social security system. It expands the coverage of the insurance system, not only by widening the area of risks covered—as in the case of children's allowance and death benefits—but it also increases the number of persons covered by the scheme. The latter change involves the abolition of the present income limit for non-manual workers (which has already been raised from £250 per annum to £420 per annum since the war began) and the addition of the self-employed and all other persons of working age even if not gainfully employed, unless specifically exempted because not possessing an annual income of more than £75.

The extension of coverage involved in the recognition of the special needs of married women is perhaps less of a change than Sir William claims. Even under the present inadequate health insurance system there is a lump sum maternity grant: here the change involves merely a doubling of the amount previously granted. Payment of the marriage grant to women who were gainfully employed before marriage and of double sickness benefit during maternity to gainfully employed married women appear to be devices, less for the recognition of new risks, than compensations for the fact that the proposed unemployment and disability payments for working wives are less favorable than those for single working women.

From many points of view, however, the most striking achievement of the Report is the proposed unification and integration of the existing patchwork of income-maintenance services. This involves several important changes.

It first involves bringing together in one unified scheme, governed by common principles and subordinated to common objectives, all the previously independent insurance programs. For unemployment, old age and non-industrially caused disability the proposal involves no fundamental change in approach but merely a rationalization and unification of existing qualifying conditions and benefit rates, a matter which will be discussed in more detail below. But for funeral insurance, as already pointed out, the change involves the addition of a new state

service, while for workmen's compensation the proposals mean complete supersession of the existing program and inclusion of provision for industrial accident and disease within the unified social insurance scheme.

As in the United States, the arrangements made in Great Britain for protection of workers against income loss due to industrially caused disabilities have always operated on principles that differed from those governing protection against old-age, unemployment or general disability.[6] Whatever gains the system may have represented over the arrangements in force at the end of last century, they are more than outbalanced by outstanding weaknesses, especially when the scheme has to stand comparison with the newer social insurance programs which have been introduced in the interim. In the words of Sir William, the case for supersession of workmen's compensation rests "not on a denial of any good in the present system, but on the possibility of replacing it by a better system" (p. 36). It is accordingly proposed that the general disability insurance program should provide benefits for loss of earning power due to disability, however caused, and that all persons should be entitled to medical treatment and rehabilitation through the new national health service. This latter proposal is a really progressive step, for it was the outstanding weakness of the old workmen's compensation arrangements that they made no provision for medical care and restoration of earning power, and the facilities available under the existing general health insurance program, which were all the worker could claim, were sadly inadequate.

Although the Plan would thus subsume industrial health risks under the unified general scheme, two concessions to the traditional approach are made. The pensions payable in case of prolonged disability due to industrial causes are to be based upon a different principle from all other benefits, and although both workers and employers will share in the costs of the scheme there will be an additional industrial levy imposed on employers in industries scheduled as hazardous, to meet a proportion of the costs both of disability benefits and industrial pensions in these industries.

The second big change which will be caused by the unified

[6] The system places upon each employer a legal liability to compensate any employee for loss of earning capacity due to accident or industrial disease and provides compensation irrespective of any direct or indirect negligence of the employer and in spite of negligence by the employee. Compensation is accordingly based on the principle of a division of loss between the employer and the employee and relates the amount, subject to a maximum, to the average earnings of the employee. The employer may insure himself against his liability in any way he pleases or, except in coal mining since 1934, he may not insure at all.

scheme proposed in the report is a removal of anomalous benefit provisions. As the Report points out: "An adult insured man with a wife and two children receives 38 shillings per week should he become unemployed: if after some weeks of unemployment he becomes sick and not available for work his insurance income falls to 18 shillings. On the other hand a youth of 17 obtains 9 shillings when he is unemployed, but should he become sick his insurance rises to 12 shillings per week" (p. 6). Similarly, the benefits, both medical and cash, received by workers from the health insurance program to which all workers contribute equally vary from worker to worker, depending on the financial status of the Approved Society of which each is a member. And, while the tests of need applicable to persons seeking public assistance have been increasingly unified because of the growing scope of the clientele of the Assistance Board, there are still three different standards of need administered by the central government (for unemployment assistance, for non-contributory pensions, and for supplementary pensions), while those for general public assistance vary from one county to another.

The Beveridge Plan would replace this heterogeneity by a system of uniform insurance benefits for all major risks, differing only because of the differing subsistence needs of certain groups, plus a single public assistance program applying a uniform test. The standard rate of benefit, determined on the basis of budgetary and cost-of-living studies and the results of social surveys, is 24 shillings for a single man or woman, 40 shillings for a man and wife, and provides 8 shillings for each child whether income loss is due to short- or long-period unemployment, temporary or permanent disability or old age. The proposed rates involve some increase in existing unemployment benefits but the most notable change is in health insurance where the old permanent disability benefit for a man, wife and two children is raised from 10 shillings 6 pence to 56 shillings. In addition, the Plan would abolish the pre-war differential between agricultural and general unemployment benefits, and between the benefits payable to single men and single women.

There are, however, three exceptions to this uniformity: (a) For permanent industrial disability the benefits are to be equal to the greater of this uniform sum or two-thirds of previous earnings (up to a maximum of 60 shillings) plus children's allowances. The arguments in support of this proposal are not very convincing and it seems likely that the provision is a concession to the strength of trade-union feeling. (b) Lower benefits for unemployment and disability are payable to gainfully employed married women on the ground that their subsistence needs are less, because housing accommodation will be provided

by the husband's earnings or benefit and that, in any case, married women should not complain because they are the major beneficiaries of the maternity benefits (which are 50 per cent above the unemployment or disability rate) although they pay no more in contributions than single women. ". . . in the unified scheme the balance of contributions and benefits must be looked at as a whole and not individually. In that scheme housewives cannot complain of inequity" (p. 51). (c) The full rates of benefit for the aged will be reached only at the end of twenty years, primarily because of the relative costliness of the old age program and because "It is dangerous to be in any way lavish to old age, until adequate provision has been assured for all other vital needs . . ." (p. 92).

The third step toward unification of the existing maintenance services involves a unification of all social insurance contributions. So far as existing programs are concerned, the change is not very great: owing to the merging of contributions for old age and sickness, the workers and employers today pay two contributions only. The effect of the various proposals outlined above will mean that in the future employers will pay to the state as part of the unified contributions some or all of the payments previously made as private insurance against workmen's compensation risks, while workers will no longer find it necessary to pay additional sums for private insurance against the risks of ill-health and the costs of funerals.

The proposals for unifying and rationalizing the administration of the various social insurances and related services involve far-reaching departures from existing British practice. Nevertheless, the one which will strike Americans as most novel—namely, the vesting of complete responsibility in the hands of the central government—involves a relatively slight change from the present British situation. The social insurances ever since their inception have been the administrative responsibility of the central government, even in health insurance where there was very great delegation of powers to the Approved Societies. So too have non-contributory old age pensions. The vital step toward centralization of all public aid services was taken in 1934, when, by the creation of the then Unemployment Assistance Board, the central government undertook sole responsibility for a major service based upon need. This was followed soon after the war by a transfer to Whitehall of the program for supplementing, on the basis of need, the old age pensions both contributory and non-contributory. Today, therefore, the public aid responsibilites of the British local authorities have shrunk to almost insignificant proportions.

The more significant changes, in British terms, involve (1) the supersession of the Approved Societies as administrators of the health insurance program and (2) the proposed creation of a new Ministry of Social Security which would take over the income maintenance services now divided between various Whitehall departments.

The use of largely autonomous Approved Societies as the major administrative agents for health insurance had been a concession to the powerful Friendly Societies at the time the scheme was introduced. Sir William urges their supersession on the grounds (a) that, because the privilege was extended to private insurance companies, the arrangement has not in fact operated as a vehicle for self-government, which was originally a powerful argument for their use; (b) that their existence has led to gross inequalities of treatment as between insured individuals and impedes improvement in the quality of service for all; (c) that their retention leads to unnecessarily high administrative costs and is an obstacle to unification of the whole social insurance system.

The second novel administrative change proposed is the creation of a Ministry of Social Security. At the present time central responsibility for the various public aid programs is divided among five Whitehall agencies.[7] The new Ministry would take over all their functions, except responsibility for medical care which would remain with the Ministry of Health, and would also take over from the local authorities all their remaining public aid functions other than treatment and services of an institutional character. Sir William leaves undecided the appropriate location of the Employment Service, now under the Ministry of Labor, although apparently leaning to the view that it should be transferred to the new Ministry.

III. *Major Problems Raised by the Report*

Inevitably a plan of such scope, and concerned with one of the major problems of our times, raises many fundamental economic and social problems. Only four will be touched upon here: (1) Will the plan if adopted abolish want? (2) What will be its effect upon enterprise, including the enterprise of government? (3) Is the plan financially feasible? (4) Is the specific technique proposed, almost exclusive reliance upon socal insurance, technically workable?

(1) On the major question whether adoption of the Beveridge Plan will bring about freedom from want, Sir William's answer is not en-

[7] The Ministry of Labour (unemployment insurance); the semi-autonomous Assistance Board (unemployment assistance and supplementary pensions); the Ministry of Health (national health insurance, contributory old age and survivors' pensions and some public assistance supervision); the Home Office (workmen's compensation); the Customs and Excise Department (non-contributory old age and blind pensions).

tirely clear. At one point he emphatically states that "it is clear that abolition of want by redistribution of income is within our means" (p. 167), and from the context it is evident that he is thinking of "means" in basic economic, rather than money, terms. On the other hand he asserts that whether or not freedom from want is a feasible post-war aim depends not only on the preparation and adoption of a social security plan such as he proposes, but also on continuing international economic coöperation and on readjustments in the British post-war economy so as to secure full employment (p. 168). And he frequently refers to "the assumptions on which the Social Security Plan is based."

These reiterated assumptions are that children's allowances will be introduced, that a free and comprehensive health and rehabilitation service will be created, and that steps will be taken to maintain full employment (p. 120 and all of Part V). The assumption regarding full employment, in particular, has been cited in support of the allegation that the author himself admits his plan is impractical unless this is assured. In fact, however, Sir William specifically demonstrates by an analysis of data relating to the years 1936 and 1937, that want could have been abolished before the war by a redistribution of income of the kind he has in mind (pp. 165-66), even when unemployment was considerably in excess of his assumed "full employment norm" of 8½ per cent.

A careful reading of the Report suggests that the author's position is in reality somewhat as follows: First, "want is only one of five Giants on the road of reconstruction and in some ways the easiest to attack. The others are Disease, Ignorance, Squalor and Idleness" (p. 6). Second, freedom from want in turn involves two steps: a redistribution of income within and between classes and a general level of production sufficiently high so that the resulting share of each will yield a volume of goods and services adequate for basic needs. Redistribution can be assured through social insurance and children's allowances. The general level of production is already so high that unless the British are to be very much poorer in real economic terms than they were before the war, which he argues is unlikely, a redistribution would yield to all an income sufficient for subsistence as he has defined it. Unemployment would of course pull down the general level of production but here again it is argued that it would have to be very greatly in excess of the assumed 8½ per cent to endanger the subsistence minimum. Want is, however, only one of the evils of our time. A complete solution of the problems of reconstruction will call for measures additional to a plan for Social Security; namely, health services, a

policy of full employment, a broad housing program, and an educational campaign to teach people how to use their incomes more efficiently and to appreciate the fact that the expanded community responsibilities for the individual carry with them obligations on the part of the individual to contribute to the well-being of the community.

Throughout the Report Sir William makes a very good case for the assertion that freedom from want *can* be assured by adoption of his plan now, or in the forecastable post-war future. The current confusion and misunderstanding of his position on this vital question, seems, if the above interpretation be correct, to be due to his failure always to make it sufficiently clear whether his "assumptions" relate to the Plan for Social Security, to the attainment of freedom from want, or to the broader objective of overcoming all five of the evils to which he has drawn attention. Furthermore, the treatment of children's allowances and full employment as assumptions of the Plan for Social Security does not seem in keeping with his own analysis of the problem of want and the remedies called for. It would follow from his analysis of the need for a double redistribution of incomes that children's allowances are an essential part of the Plan itself, as Sir William admits, at one point (p. 112), while full employment is primarily directed against another of the "Giants," namely idleness, and only in secondary degree is it an assumption underlying the Plan. Finally, if attention was to be drawn to the other measures necessary to combat the remaining four "Giants" (Disease, Ignorance, Squalor and Idleness), it is difficult to see why he selects only measures concerning the first and the last and fails to elevate Educational Policy and Housing to an importance equal to Health Measures and Full Employment.

(2) What of the effects of the adoption of the Plan upon enterprise? Here Sir William has less that is convincing to say. Obviously, much will depend upon the differential between the guaranteed minimum income and the level of money wages. No comparison is given between the new levels of benefit and present and probable future wage distributions. It seems likely, however, that at least for workers in agriculture and for other low-paid workers the differential may be very small (a possibility which, as shown below, is recognized by the author). It would seem that on the whole Sir William relies partly upon the past behavior of British workers, partly on certain controls within the insurance system itself, and partly on a hope that any possible losses due to diminished enterprise will be more than offset by the greater energy and vigor that would characterize a more healthy and better fed population.

The effect of the plan upon the initiative of employers is only lightly

touched upon,[8] although in the case of industrial accidents the incentive to take all possible steps to reduce risks is retained through the provision for special assessments against hazardous industries and the proposal to vest in boards of employers and workers in individual industries direct responsibility for proposing positive controls.

So far as government is concerned, and particularly the enterprise to effectuate a policy of full employment, there is one aspect of the Plan which is very questionable, namely, the proposal to pay unemployment insurance for as long as a man is unemployed. In past years Sir William was among the foremost critics of the system of unlimited benefit that prevailed from 1927 to 1931, on the ground that by relaxing public pressure this simple device for meeting income loss made it all too easy for an unenterprising government to evade adopting positive policies for the reduction of unemployment. The arguments in support of this criticism were, and remain, convincing.

There is another undesirable repercussion of the policy of paying indefinite unemployment insurance benefit: the demoralizing effects of prolonged idleness with an assured cash income. Sir William proposes that receipt of extended benefit be accompanied by the requirement to undertake training, but he later admits that "this proposal is impracticable if it has to be applied to men by the million or the hundred thousand" (p. 163). All past British experience with training measures, unaccompanied by adequate work programs, bears out the truth of this judgment, even if the trainees number only a few thousands.

(3) The narrowly financial problems raised by the Plan have so far received major attention from critics. It is a real merit of the Report that Sir William quantifies his proposals, a task which is the easier because the Plan involves the entire population and uniform benefits. It should be noted, however, that the provisional character of the cost estimates is again and again emphasized. They are put forward as a "basis for discussion only." Although Britain's thirty years' experience with insurance programs provides a firmer basis for estimating costs than is available, for example, in the United States, a careful reading of the Actuary's Report (Appendix A), which is an essential part of the Report as a whole, reveals how wide is the probable margin of error.

Because of the uncertainty surrounding war casualties no attempt is made "to adjust for the effect of the war on the size and constitution of the population surviving at its termination, and consequently on the

[8] "At whatever reasonable point the employer's contribution is fixed, it is a small part of his total bill for labour and his costs of production; it is a sign of an interest which he should feel and does feel in the men whose work comes under his control" (p. 119). . . . For the employers the plan imposes an addition to their costs for labor which should be well repaid by the greater efficiency and content which they secure" (p. 167).

births and the population in the ensuing period" (p. 180). This unknown element is of particular importance in the old age and survivors' program and for children's allowances. The latter is roughly estimated to account for £113 millions of the total expenditure of £697 in 1945, but no attempt has been made "to measure the possible effect on the fertility rates in future of changes in economic and social conditions as they may be affected, *inter alia,* by the grant of universal children's allowances" (p. 180).

On two of the programs, public assistance and the health service, the estimates are admittedly little better than guesses.[9] Again, the costs attributable to unemployment risks are based upon an assumed post-war rate of unemployment of 8½ per cent (the equivalent of 10 per cent in industries at present subject to unemployment insurance). In fact, unemployment in the period between the two world wars was greatly in excess of this level, and the Statutory Committee on Unemployment Insurance had adopted an average of 15 per cent as a reasonable figure in evaluating the financial status of the Fund in the thirties. The reduction to 8½ per cent follows from Sir William's assumption of the adoption of full employment policies, but on this basis 8½ per cent seems an unduly pessimistic figure. Even the estimates of disability and old age insurance costs are subject to a serious margin of error. The first involves a guess as to the effects of a comprehensive health and rehabilitation service on claims for disability benefits, in regard to which the actuary remarks, "The position is definitely speculative"; while the second calls for forecasts of the effect of inducements to postpone retirement on the actual age of retirement.

Attention is drawn to these uncertainties, not in criticism of the author for presenting estimates, but to underline their provisional character and to indicate to how large an extent the task of the actuary in preparing social insurance estimates involves the making of economic and social judgments.

In any case, in discussing the financial burden it is important to recall that the Plan is fundamentally a redistribution of income both within and between social classes. So long, therefore, as the sum to be redistributed does not exceed the total national income the problem is really one of whether the people as a whole are willing to devote any

[9] The figure of £5,000,000 for public assistance other than assistance pensions "is a token figure covering a number of categories. . . . There are no means of assessing the probable cost with any precision" (p. 200). Regarding the much more important item for the health service it is stated only that "a precise estimate cannot be formed" and that "after consultation with the Ministry of Health and the Department of Health for Scotland a round figure of £170,000,000 has been taken as a suitable measure for this purpose" (p. 201).

given proportion of the total available income to ensuring a minimum standard of living for everyone. The 1945 expenditure under the Plan would amount to some 12 per cent of the national income (assuming the 1938 level increased by 25 per cent in accordance with the price rise assumed in fixing the benefits under the Plan).[10]

The Report proposes to increase the contribution provided directly by workers from 1 shilling 7 pence (nearly 2 shillings at 1945 prices) to 4 shillings 3 pence weekly. But as Sir William shows, in 1937-38, expenditures per adult man for private insurance premiums and medical care (much of which would be unnecessary under the Plan) amounted to almost twice the state insurance contributions. The proposed 4 shillings 3 pence, therefore, involves a net reduction of the present proportion of income typically earmarked by workers for the achievement of security. If further evidence were needed that British workers are willing to devote a substantial proportion of income to this end, it is provided by the great enthusiasm with which workers have greeted the Beveridge Plan.

The expenditure from public funds, as compared with the existing scheme, involves an increase of £86 millions, or a little over 30 per cent, by 1945 and £254 millions, or almost 96 per cent by 1965.[11] Here again, the question is not one of ability but of will: How far will the taxpayers as a whole be prepared to devote this sum to abolishing want as against other possible objects of expenditure? Sir William believes they will, because his plan involves putting first things first: "bread for all before cake for anyone." Obviously the question is one for the social historian, not the economist.

The price to be paid by employers, which will increase from £83 millions to £137, or by about 69 per cent, is also in part replacement of private by public insurance premiums (through the new workmen's compensation arrangements). Here, more opposition is likely to be met. Sir William's arguments for retention of the payroll tax are, indeed, not very convincing except in regard to industrial disability. He admits all the familiar objections, both social and economic, but feels that these are outweighed by the idea that the employers' contribution is a mark of the concern felt by employers for their workers and because it is desirable "to give to employers a definite status, based on contribu-

[10] In fact it may prove less than this for it seems likely that the loss in foreign investment and shipping income, etc., may be outbalanced by the significant increase in productivity that has occurred during the war and by fuller employment.

[11] The real increase in the Exchequer liability lies between these figures. The sharp rise in payments is due to present underpayments by the state for old age and survivors' insurance in accordance with financial arrangements to avoid the accumulation of a reserve.

tions, for making representations as to the administration of social insurance and its possible improvement" (p. 109). It is a pity that the author, in the course of his sweeping reorganizations, did not seize the opportunity to eliminate what has always been a questionable feature of social insurance financing, which was defensible only so long as social insurance was a novel form of public aid, and only so long as the risks insured against were narrowly industrial, the group covered was a fraction of the population, and the real incidence of the payroll tax was not widely understood.

(4) There remains the final question whether a single system paying uniform benefits is an appropriate instrument (as compared with other social devices) for bringing about freedom from want. Analysis of the Report reveals that the author has some doubts. Despite the relative homogeneity of costs of living and wage rates (as compared, for example, with the United States) there are none the less important differentials, notably in rent and between levels of remuneration in agriculture and industry.

When typical working families' expenditures on rent range from 4 shillings 7 pence in agricultural areas to 16 shillings in London, it is difficult to see how subsistence, and no more than subsistence, can be provided through a uniform money payment. Sir William pins his hopes on a vast housing program. Similarly, the lower wage levels in agriculture create difficulties both in regard to the uniform contribution, which will be quite onerous, and to the uniform payment, which may be dangerously close to agricultural wages. Sir William replies that "it seems right to base social security for the future on the assumption that agriculture will have a status equal to that of other industries in respect of terms and conditions of service" (p. 62). One can hazard the guess that in both cases the more likely alternative is an introduction of geographical (or urbanization) and occupational differentials. Sir William provides for this possibility through subsequent recommendations to be made by the Social Insurance Statutory Committee. But it should be noted that this will involve a sacrifice of that simplicity which is one of the popular features of the Plan.[12]

Sir William is undoubtedly right in thinking that his countrymen care greatly about the abolition of want. He has offered them a rational and orderly program. Some portions of his program, such as that

[12] On the other hand, it seems likely that the one major departure from uniformity which the author recommends, the postponement of the full subsistence benefit to the aged for 20 years, will not command public support. For despite the increasing numbers of the aged, which cause Sir William so much concern, he does not seem to have allowed for the unpopularity of the very low benefits now payable.

dealing with small life assurance, may be dropped and the basic money benefit may not reach the full subsistence level for some time. But it seems safe to predict that the next ten years will see the carrying into effect of his major proposals, including children's allowances, a comprehensive health service and a rationalization and unification of the present patchwork of programs along the general lines that he has suggested. Certain it is that his proposals will stimulate discussion in the field of social insurance and the allied services for many years to come.

THE INTERNATIONAL CLEARING UNION

By I. de Vegh*

The Proposals

On April 7, 1943, the British Information Services in New York published the "text of a paper containing proposals by British experts for an International Clearing Union," of which Lord Keynes is believed to be the principal author. On the same day the United States Treasury made public its own "preliminary draft of a proposal for an International Stabilization Fund." On July 12, the Canadian Government released "tentative draft proposals of Canadian experts for an International Exchange Union."

The Perspective of the Present Paper

None of these proposals are official proposals of the respective governments. Since, however, they are aimed to influence post-war economic policy and, in fact, to create new instruments and forms of post-war organization, the proper perspective in which to view them is that of their advantages and disadvantages to the eventual high contracting parties rather than that of their conformity to ideals in an otherwise perfect—or at any rate irrelevant—world. It is perhaps unnecessary to emphasize that in the following discussion relative advantages are meant in terms of long-term welfare and not of the penny-wise, pound-foolish policies that are most frequently associated with self-seeking international economic aspirations.

In spite of due regard for the ability of the United States and Canadian experts and the originality and merit of their proposals, both the intellectual glamour of Lord Keynes and limitations of space demand concentration on the British proposal.

It is proposed, first, to quote the stated purposes of the Keynes Plan and its tentative provisions. This will be followed by sections reviewing the provisions that seem most important. The final section will deal with some basic problems of post-war loan and currency policy.

The Purposes of the Keynes Plan

The avowed purposes of the Plan are very ambitious. They are stated in seven points, as needs for

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1. an instrument of international currency to make bilateral arrangements superfluous,
2. an orderly method of determining foreign exchange values,
3. a quantum of international currency that is subject to deliberate expansion and contraction,
4. a stabilizing mechanism to exert pressure on countries whose payments tend to become unbalanced,
5. starting off every country after the war with a stock of reserves appropriate to its importance in world commerce,
6. a central institution to support other international institutions,
7. a means of reassurance that methods of restriction and discrimination will be unnecessary.

All this is to be accomplished by the creation of an International Clearing Union based on international bank money called bancor. "The Central Banks of all member States (and also of non-members) would keep accounts with the International Clearing Union through which they would be entitled to settle their exchange balances with one another at their par value as defined in terms of bancor. . . . The idea underlying such a Union is simple, namely, to generalize the essential principle of banking as it is exhibited within any closed system. This principle is the necessary equality of credits and debits."

Compulsory vs. Permissive Clearing

The stated objectives of the Plan all seem meritorious to the highest degree. Yet the need for an instrument of international currency to make blocked balances and bilateral clearings unnecessary and the two explanatory statements quoted require some comment.

As long as member states are merely entitled to use the clearing accounts, bilateral payments and clearing agreements would seem to be compatible with the Keynes Plan. It is also easy to visualize conditions in which bilateral payments agreements would be advantageous to some of the member countries. Moreover, as will be seen, the Plan does not propose to do away with control over international capital movements, a major source of blocked balances.

Blocked balances and bilateral clearings could not arise, however, if the central banks of the member states were *compelled* rather than *entitled* to settle all international balances through the Clearing Union. A compulsory international clearing system would provide a framework for international economic collaboration, agreements, and international economic policy in general that would be more rigorous than its alternatives. It would eliminate much loose thinking and many of the penalties of loose thinking. It would not hamper the freedom of transactions.

The gold standard was a clearing system in the Keynes sense but it had none of the safeguards and the latitude in conscious control that the Plan proposes to create, except possibly in so far as it was a sterling exchange standard controlled from London. Even these London controls were, however, unsophisticated and haphazard.

The statement that the Union is based on the essential principle of commercial banking is undeniably true but not very remarkable. Any clearing union would have to embody that principle as far as it goes and the clearing aspects of the proposal are relatively unimpressive.

The really interesting and imaginative aspect of the proposed Union is that it is an extension of the principles of the Sterling Area and of the gold standard, and their adaptation to post-war requirements. In this the Plan shows the boldness of imagination one would expect from its author.

The Specific Provisions

The Plan proposes eighteen specific provisions to form a basis of discussion. These should perhaps be listed for purposes of reference:

(1) All the United Nations will be invited to become original members.

(2) The Governing Board shall be appointed by the governments of the member states.

(3) The member states will agree between themselves the initial value of their own currency in terms of bancor, which may not be altered without permission of the Governing Board.

(4) The Board fixes the value of bancor in terms of gold. Member states shall not acquire gold at a higher price but are otherwise free to trade in gold.

(5) Each member state shall have assigned to it a quota which shall determine the measure of its "responsibility in the management" and of its right to enjoy its credit facilities. The quotas are to be fixed with reference to the size of the foreign trade of each country.

(6) Bancor transfers on the books will be accepted in full settlement of international balances.

(7) Small charges are made for the carrying of all bancor balances, credit or debit.

(8) A member state may not increase its debit balances by more than a quarter of its quota in a year without the permission of the Board. If its debit balance has exceeded a quarter of its quota on the average of at least two years, it shall be entitled to reduce unilaterally the value of its currency in terms of bancor by not more than 5 per cent. If a country's debit balance reaches half of its quota the Board can request the deposit of suitable collateral. As a condition of letting the debit balance rise above 50 per cent of the quota, the Board may require the application of three other remedies; namely, (a) a stated reduction of the value of the member's currency, (b) the control of "outward capital transactions, if not already in force," (c) the

surrender of a suitable portion of its gold or other liquid reserves.

If the debit balance exceeded three-quarters of a member's quota and no reduction took place within two years, the country may be declared in default and no longer entitled to draw against its account.

Each member state shall agree to pay to the clearing union any payments due from it to a country in default.

(9) "A member State whose credit balance has exceeded *half* of its quota on the average of at least a year shall discuss with the Governing Board (but shall retain the ultimate decision in its own hands) what measures would be appropriate to restore the equilibrium of its international balances, including:

"(a) Measures for the expansion of domestic credit and domestic demand.

"(b) The appreciation of its local currency in terms of bancor, or, alternatively, the encouragement of an increase in money rates of earnings.

"(c) The reduction of tariffs and other discouragements against imports.

"(d) International development loans."

(10) A state shall be entitled to obtain a credit balance by paying in gold, but cannot demand gold against its balance. The Board shall have the discretion to distribute gold in the possession of the Union between the members possessing credit balances.

(11) The monetary reserves of a member state shall not be held in another country.

(12) Countries with large quotas will appoint a member each to the Governing Board and those with small quotas will appoint one for each political or geographical group. The vote shall be proportionate to the quotas.

(13) The Board shall be entitled to reduce all quotas proportionately and to reëxpand them to the original level.

(14) The Board shall be entitled to ask and receive information from each member state.

(15) The executive offices are to be situated in London and New York with the Governing Board meeting alternately in London and Washington.

(16) Members shall be entitled to withdraw on a year's notice provided they discharge any debit balances. They can also be expelled.

(17) Non-member states would be allowed to keep accounts with the Union.

(18) Annual reports, annual meetings are stipulated.

Obviously among these provisions some are very important, and some are not. Among the items of great significance are Points (5), (8), and (9).

Control of the Board of Governors

Point (5) determines who shall control the potentially extremely powerful Governing Board. If a country's foreign trade is to be the basis on which to measure its quota, then clearly the smallest country has proportionately the best position, because its foreign trade per head of population is certain to be very much larger than that of large

countries which are *ipso facto* less dependent on foreign trade. Countries with tremendous internal resources like the United States and Soviet Russia, as well as India, China and Brazil, will have a representation that is not commensurate to their population and to their yearly share in the world's output or its consumption.

If the trade of countries in the Sterling Area or at least of the British Empire among themselves were to be considered internal trade, so that for the purposes of membership in the Union the weight of the Sterling Area or at least of the British Empire as a whole were to be measured by its net trade with non-sterling or non-British areas, the most important case of over-representation would be reduced.[1] There will be no such simple way to reduce the over-representation of the small European independents.

This unfortunate suggestion makes the Plan vulnerable to suspicions that materially diminish the possibility of its being accepted by the United States. If the Plan is so drawn as to assure to England and her satellites control over the resources of the Clearing Union, with all the collateral advantages that will flow from such a strategic position, only too many people will leap to the conclusion that that is its sole purpose, no matter how desirable or attractive it may be in some of its other aspects.

The Size of the Fund

Point (5) not only suggests that the quotas should be proportionate to the foreign trade of member countries but actually specifies that "the initial quotas might be fixed by reference to the sum of each country's exports and imports on the average of (say) the three pre-war years, and might be (say) 75 per cent of this amount, a special assessment being substituted in cases (of which there might be several) where this formula would be, for any reason, inappropriate." In other words, the initial quotas might total anywhere from 25 billion dollars upwards.

This is, of course, a fabulous sum of money and it provoked a good deal of unfavorable comment.[2] It compares with a peak United States

[1] Mr. J. H. Riddle, Economic Adviser of the Bankers Trust Company, pointed out in an unpublished memorandum that the United States would have a 14 per cent share in the voting power as compared to a 16 per cent share for the United Kingdom and a 35 per cent share for the British Empire. With the support of a few Sterling Area members or countries from the continent of Europe, England could thus always command a majority of the Board of Governors as long as the Empire voted with her.

[2] J. H. Williams, "Currency Stabilization: The Keynes and White Plans," *Foreign Affairs*, July, 1943, pp. 645-58.

F. A. Lutz, *International Monetary Mechanisms. The Keynes and White Proposals.* Essays in internat. finan., no. 1, July, 1943 (Princeton Univ.).

J. H. Riddle, *British and American Plans for International Currency Stabilization.* Preliminary draft, May 26, 1943. Bankers Trust Company, New York, N.Y.

export surplus of about 1.1 billion dollars in 1938 (disregarding the export surpluses resulting from loans to our Allies during and after the First World War, the counterparts of which would now be chargeable to Lend-Lease and Foreign Relief). There are only two purposes conceivable that would require overdraft facilities of such immense size. One is to take care of flights of "hot money" of almost any conceivable proportions. The other is to finance imports for reconstruction indefinitely out of the resources of the Clearing Union.

As to the first, it is against the declared intention of the Plan that the bancor resources should be used to finance hot money movements. In fact, the Plan goes very much further than this. It states that "There is no country which can in future safely allow the flight of funds for political reasons, or to avoid domestic taxation, or in anticipation of the owner turning refugee." While not actually proposing universal control of international capital movements, the Plan contains the suggestion that it would "be of great advantage if the United States as well as other members of the Clearing Union would adopt machinery similar to that which the British Exchange Control has now gone a long way towards perfecting."

While the Plan thus counts itself out in so far as the effort to establish freedom of capital transactions after the war is concerned, it still has to be reviewed from this angle. In the long run, freedom of capital movements is probably an essential of a free world. The number of would-be refugees who were trapped in Axis countries because exchange control prevented their obtaining the necessary foreign exchange to emigrate is enormous. Flight—and flight of capital—is the last resource of an opposition, be it against the French Revolution, the Russian Revolution, or the German Revolution. A perpetuation and legalization of control over capital movements is not compatible with any notion of a world that supposedly combats violence and dictatorial forms of government.

Of course, it will not be possible to permit unrestricted private transfers of capital immediately after hostilities end. Political and economic stability have to come first. To that extent an attempt to start postwar organization with the Clearing Union and with a freeing of short-term capital transactions would mean putting the cart before the horse.

A Clearing Union large enough to take care of short-term capital movements of any probable size, speculative or otherwise, that may occur *after* political and economic stability has been achieved would be altogether a different matter. For dealing with hot money problems in the long run the facilities of the Union as envisaged by Lord Keynes may not be unnecessarily large, but its creation seems premature.

As regards reconstruction, on the other hand, the Plan similarly states that it is not intended to provide financing for post-war reconstruction and that it relates only to the mechanism of currency and exchange in international trading. If that is so, the suggested bancor resources are much too large and the limitations on their use not nearly stringent enough.

If no bancor balances were available the imports of Europe, including Great Britain, would be limited by their exports of goods and services (including exports of gold), plus the amounts of long-term loans the United States and other non-European countries were prepared to grant, plus the Lend-Lease and Foreign Relief appropriations of the United States. These substantial totals are now potentially further to be increased by the bancor quotas of Europe.

To make billions of bancor available to the governments of the needy countries as a net addition to their other resources, and then to take action to cut down imports so obviously needed and just placed within the reach of these governments, will take superhuman wisdom, force, and courage on the part of the Board of Governors of the Clearing Union. In the absence of such restraint, however, the capacity of Europe to import will have been potentially increased by something very much like a forced loan of perhaps 10 to 15 billion dollars to be raised largely in North and South America free of interest. Point (7) actually suggests that the exporting countries should pay interest of one per cent per annum for the privilege of extending such a loan.

Nothing could be more inflationary or better designed to perpetuate the much criticized tendency of the American economy to develop large surpluses for export. After this war there will be an immense shortage of goods and tremendous construction needs the world over. The size and duration of this reconstruction demand and of its cumulative secondary effects can be judged by reminding ourselves that the comparatively much smaller degree of destruction witnessed in the First World War was followed by eleven years of unprecedented boom. Throughout that period America was a free lender. As a consequence of its making dollars freely available to the rest of the world it maintained an export surplus that was never paid for and that came in for an immense amount of criticism.

The reconstruction period after this war and its aftermath will be a period of great difficulty for American economic policy under the best of circumstances. During the reconstruction period the interests of the rest of the world, and especially of Europe including Great Britain, will require large American exports, to be financed out of American loans and gifts. As soon as the reconstruction period is over, the interests of Europe will require the United States to develop an import surplus in

short order so as to make room for the restored productive capacities of the former.

This changeover from an export surplus to an import surplus will be painful enough after the American economy will have been geared to so large an export surplus for so long a time. It will be made more difficult by the fact that domestic deferred demand will be the strongest in the early years following the war, *i.e.*, when export demand will be greatest, and that the squeeze on our external trade will come at the very time when domestic demand will probably begin to peter out. A potential further export demand of the proportions made possible by the Keynes Plan during the reconstruction period means to invite inflation and subsequent disaster.[3]

The basic problem of American economic policy is to prevent the post-war boom from getting out of hand and to preserve sufficient income-generating forces—or to generate new ones—for reasonably full employment after the eventual shrinkage of export markets. This problem would be much aggravated rather than made easier by a premature imposition of an International Clearing Union of the suggested type. The dangers would be in direct proportion to the size of the funds that could become available through the Union. The time to organize any such Union would seem to be at the end of the reconstruction period and not at its beginning.

The Liabilities of Creditors

If the exporting countries allow themselves to get loaded up with bancor they might be more or less forced to trim their trade policies to the requirements of their debtors, as well as to accept the terms of trade and the terms of long-term borrowing that the bancor debtors will be willing to grant. While nominally the penalties are stricter on debit balances than on credit balances, through the control of the Board of Governors the debtor countries will have considerable powers to interfere in the policies of the creditor countries.

The section of the Plan entitled "What Liabilities Ought the Plan to

[3] Owing to a persistent inflation of its wage costs the United States might fare quite badly in the secondary post-war boom and might begin to lose exports relatively soon, especially if foreign exchange rates are so determined during the reconstruction period that wage costs (not to be confused with wage rates) are significantly lower abroad than in the United States. This same inflation of wage costs in the United States would also speed the exhaustion of domestic investment opportunities available at the cost-price relationships existing after the war. The greater the inflation immediately after the war, the more painful these pressures are likely to be later on.

The experience of England after the last war is especially suggestive in this respect, when the vigorous deferred-demand boom culminating in the inflation of 1920 was followed by a decade of relatively slack business activity, during which British costs were notoriously too high and British investment and export opportunities relatively restricted.

Place on Creditor Countries" contains, among others, the suggestion that, if bancor balances insist on accruing to a country's credit, "the appropriate provision might be to require the eventual cancellation or compulsory investment of persistent bancor credit balances accumulating in excess of a member's quota."

It is not suggested that it is the intent of the Plan to deprive the surplus producers, *i.e.*, the countries of North and South America as well as certain parts of the British Empire overseas, of the advantages of their well-preserved productive resources. Nonetheless, one of the collateral effects of the Plan as now submitted may well be to deprive them of their strong position after this war and, in fact, to turn the tables on them.

The manner in which the Plan is now drawn gives the importing countries the whiphand over the exporting countries. Not only does it give the big post-war importers the opportunity to finance additional imports out of bancor resources; it will also help to insulate the rest of the world against the impacts of the eventual slump in the United States that will be brought on by the gradual exhaustion of income-generating forces during the secondary post-war boom. It is less clear what good it will do the United States in that particular predicament.

It is probably unfair to the Plan to point up a set of its possible implications in this manner. The best of plans would be susceptible of abuse if people wanted to abuse it and a relatively poorly drawn plan could be made to work if the intention to make it work were sufficiently strong. Moreover, a highly persuasive passage of the Plan points out that "the liability of an individual member is determined, not by the quotas of the other members, but by its own policy in controlling its favourable balance of payments. . . . In the absence of the Clearing Union a creditor country can employ the proceeds of its exports to buy goods or to buy investments, or to make temporary advances and to hold temporary overseas balances, or to buy gold in the market. All these facilities will remain at its disposal. . . . The effect of the Clearing Union is to give the creditor country a choice between voluntarily curtailing its exports to the same extent that they would have been involuntarily curtailed in the absence of the Clearing Union, or, alternatively, of allowing its exports to continue and accumulating the excess receipts in the form of bancor balances for the time being. . . . No more is asked of it than that it should hold in bancor such surplus of its favourable balance of payments as it does not itself choose to employ in any other way and only for so long as it does not so choose."

As a description of how the Plan would work under reasonably stable conditions these passages are probably quite realistic. If the

Plan were to be put into operation after the reconstruction period was terminated, both the size provisions and the above statements could be accepted without reservation.

Let us therefore assume that the Plan is only put into operation after the reconstruction period—or that adequate means are found to insulate the Clearing Union from the impact of the foreign exchange requirements of the reconstruction period—and see what the means are by which foreign exchange supplies and requirements are to be balanced in the long run.

Points (8) and (9) deal with accounts whose balances tend to run away in one direction or the other. They are in a sense the heart of the whole proposition and of any such proposition. The Plan will stand or fall with the soundness and enforceability of these recommendations.

Chronic Debit Balances

In the case of countries running debit balances the Plan suggests that they should resort to a regulated depreciation of their currencies until the debit balance is corrected. It also suggests that they should impose exchange control at least to the extent of restricting outward capital movements.

While currency depreciation was found to be an effective means to counteract deflation in many countries in 1931-32, inspection of the record does not suggest that mild depreciation, of the order of 5 to 10 per cent, is an invariably effective means to right the trade balances. In the past decade the typical effect of currency depreciations was domestic reflation, which tended to increase imports more than it increased exports. The main effect of such depreciations might turn out to be to reflate the country that runs the debit balance, and thus to create a trade balance situation that will look as if it were incurable until the currency of the debtor country is considerably undervalued. This outcome is especially likely if undue attention is paid to the behavior of balances during the reconstruction period.

Rather surprisingly the Plan also provides that the country running debit balances might be forced to post suitable collateral or to surrender a portion of its gold reserves. While such a move might be necessary to prevent a member country from running a big debit balance and accumulating gold on the side, it is not a remedial suggestion. It is meaningless as a stabilizer unless the country is on the gold standard according to orthodox canons and on losing gold will impose a deflationary banking and fiscal policy.

Last not least, "the Governing Board may recommend to the Government of the member State any internal measures affecting its do-

mestic economy which may appear to be appropriate to restore the equilibrium of its international balance." Should the Governing Board recommend that a country deflate internally, reduce wages, cut down government expenditures, what are the chances of the country in question yielding gracefully to such suggestions from abroad? Will it not always be the easier course to pursue to take the other remedial measures that are available, such as control of capital exports, increased tariffs and reduced quotas for imports, and possibly a continuing depreciation of the exchange rate?

The first such case will be the test. If the Governing Board can impose its will on the recalcitrant country, a new tool of economic leadership will have been created with all the possibilities for good or evil inherent in so powerful a tool. If the Board acts too late or fails to impose its policies, the main difference as compared to the good old days of competitive currency depreciation will be that the country running the debit balance will have a bancor debit in addition to its other foreign obligations to default on. Unfortunately, the bancor debit can be run up first and any remedies—as well as sanctions, if any—would come afterwards.

Chronic Credit Balances

The case of a country running a consistent credit balance is of especial interest to the United States. The United States is likely to have large credit balances on the current account of the balance of its international payments for a number of years after the war. Barring large gifts and loans for reconstruction purposes, these current account credits will be reflected in an accumulation of bancor balances. Therefore Point (9) was reproduced in full on page 537.

It stipulates discussions between the Governing Board and the member State running a credit balance if the balance exceeded half of the country's quota on the average of at least a year. A credit balance amounting to half of a country's quota is, of course, a very large credit balance; so that none of these remedies will come into play, and, in fact, no official discussions will take place until, for instance, the United States has piled up and maintained for a year a credit balance of close to 3 billion dollars.

Moreover, the stipulation does not seem to meet probable requirements. At least foreign lending or a reduction of foreign indebtedness should be urged on countries tending to this position as a result of current account surpluses long before their credit balance amounted to half of their quota. On the other hand, if the rise in the balance is due to short-term capital movements, nothing need or should be done by the

receiving country, regardless of the size of the resultant bancor credit accumulation.

Let us look at the suggested provisions in some detail, concerning ourselves only with current account surpluses and leaving the remedy of credit expansion to the last.

The upward revaluation of a currency is probably the least attractive of the remedial devices suggested, barring very special conditions. A consistent credit balance on current account need not be due at all to an "undervaluation" of a given currency. It might be due to a process of domestic deflation (as in the United States in 1938) which will only be made worse by the suggestion that the value of the currency be raised. Except for obviously inflationary situations, this cure will probably prove worse than the disease.

The suggested reduction of tariffs and of other discouragements against imports is undoubtedly a proper remedy, provided the bancor credits are accruing as a result of an export surplus the proceeds of which the country in question is unwilling to lend abroad. Moreover, creditor countries on capital account, like the United States, should have a liberal tariff and trade policy anyway; not so much, as many people believe, in order to develop a debit balance on current account as quickly as possible, but in order to keep the channels open for the future. Whether, however, the urgings of the Board of Governors of the International Clearing Union will be sufficient to convince a major creditor country of the advantages of a liberal tariff policy if the majority of the people otherwise disbelieve in them is open to doubt. Should a country pursuing a liberal trade policy develop a chronic credit balance on bancor account, this remedy will be unavailing; yet such a case is by no means out of question.

It can be granted without any argument that a country having chronic credit balances on current account should not try to collect them in gold or leave them lie fallow as bancor balances, but should invest them abroad. While this golden truth does not require a Board of Governors of an International Clearing Union to enunciate it, the additional support might be handy at times.

Lastly, we have to consider the first and most important suggested remedy, namely, expansionist domestic credit and fiscal policies.

It might be easy enough to get internal support for such a recommendation in a country running large credit balances on current account. An expansionary credit and fiscal policy is always agreeable, and the word of the Governing Board may be just what is needed to make it also respectable.

The experience of the United States with a liberal foreign lending

policy and a domestic boom in the decade following the First World War, when this attractive combination merely led up to the crash in 1929, suggests that such policies are not as risk-free as they seem.

On the other hand, if the United States had not had a boom in the 1920's and had not invested funds abroad so freely during the same period, an expansionary credit policy and deficit spending on large-scale public works inaugurated around 1929-30 would probably have been of immense benefit to the whole world and might have altered the course of history.

There is no provision among the remedial measures to recommend internal deflation to a country running a debit balance to correspond to the reflationary recommendations to be made to the country running a credit balance. This interesting lack of symmetry suggests that the Plan is not only better suited for but perhaps even primarily aimed at conditions as they might exist at the end of the reconstruction cycle rather than at an earlier period. Figuratively speaking, it looks as if it were aimed at 1929-30 conditions. Its main weakness in this respect, as in others, is that it is proposed to be installed in 1919.

If countries running debit balances pursue a mildly inflationary policy under the conditions of active demand likely to follow the war, the countries running the corresponding credit balances can only catch up with them at the cost of more violent inflation. Moreover, countries might deliberately—and very wisely—try to run bancor debit balances after the war by importing from abroad as much as possible so as to cut down the domestic inflationary effects of reconstruction, but by the same token inflating the exporting countries. The longer the inflationary possibilities of the Plan are allowed to exert their tempting influence, the more complete the eventual exhaustion of investment opportunities and the greater and the more prolonged the secondary post-war slump will be.

Longer-Term Aspects of the Keynes Plan

Assuming that the organization of the Clearing Union is delayed until five or ten years after the end of the war, and also assuming that the countries of North and South America will have had the self-restraint to pursue a mildly deflationary policy during this period so that they are not faced with an exhaustion of investment opportunities after Europe has been reconstructed, free rein can be given to the inflationary possibilities in the Keynes Plan and to its lack of restraints. At that time the establishment of some such device will almost certainly be to the advantage of everybody concerned, including the United States, provided the Board of Governors uses its powers with restraint.

In the ultimate analysis the specific details of the remedial measures suggested to correct excessive debit or credit balances do not matter much. In actual operation the significance of the Plan will not lie so much in the letter of the provisions but in what the Board of Governors is able or willing to enforce. The most important thing about this Union is that it unites the forces of a number of nations against a scapegrace—or a scapegoat. If a country that for any reason whatever does not meet with the favor of the Board of Governors happens to run up a large balance, it will have all the other member countries lined up against it; if a country or a group of countries having considerable influence on the Board of Governors runs up a large balance, it, or they, can shift the burden of adjustment on to other nations.

The coercive powers of the Board of Governors are, in the nature of things, limited as regards large continental powers like the United States or Soviet Russia. Moreover, if the United States actively participated in the management of the Union, it would be able to influence the use of these coercive powers against other countries. The main point is that, if the Plan is successful, the Board will be in a position to hurt or to help nations more or less as it sees fit. These Frankenstein aspects of the Plan must be clearly envisaged. Its operations will not depend on the intentions of its originators, no matter how honorable or restrained, but rather on the exigencies of the future and on the then interests of the countries in control of the Board of Governors.

Lord Keynes is, as a matter of fact, quite clear as regards the possible longer term implications of the Plan. In this connection one of the later explanatory passages is worth quoting: "The Clearing Union might become the instrument and the support of international policies in addition to those which it is its primary purpose to promote. This deserves the greatest possible emphasis. The Union might become the pivot of the future economic government of the world." This is followed by the suggestion that the Union might set up a clearing account in favor of international bodies charged with post-war relief, in favor of any supernational policing body, in favor of international bodies charged with the management of a Commodity Control; that it might be linked up with a Board of International Investment, or an International Economic Board, or an International Investment or Development Corporation. It is also stated that the Union would provide an excellent machinery for enforcing a financial blockade.

International Banking and Investment

So far the discussion of unbalances and remedies has been largely in terms of current account transactions. Actually, however, the bancor

amounts will in no way correspond to current accounts in international balances of payments. They will be like equalization fund accounts, in which current and capital transactions appear jumbled together.

In a wider sense the question of international lending is the true key to exchange adjustments. Evidence that small price adjustments actually work in international trade is scanty. Evidence is equally doubtful that the theory of the gold standard had very much to do with its successful practice even during the brief period when the world was supposed to be on a gold standard. Probably the main reason for the success of the gold standard in its best period was that the few focal countries granted credits when needed and enforced adjustments on the debtors when needed.

It is perhaps more accurate to describe the world of the second half of the nineteenth century as a sterling standard world in which the London banks performed the function of international clearing and in which London was also the international capital market that enabled young or backward countries to develop and maintain large debit balances over long periods of time. Nobody talked about equilibrium in the current account in those days or about the iniquity of a creditor country having a favorable balance. Unbalances were considered desirable. That was the way to make capital available to countries that needed it.

This worldwide Sterling Area was broken up by the World War. For a while during the 1920's the hope existed that New York would assume the place of leadership that London had relinquished.

The United States, in fact, followed on a larger scale in the footsteps of England. It provided tremendous international loans for war, relief, and reconstructon purposes just as England provided loans in the nineteenth century that were tremendous for the then scale of operations. In both cases these loans were made available out of surpluses on the current account in the balance of payments. In both cases they represented the policy of a creditor country that was continuing to increase its foreign creditor position.

The reversal of American lending policy in 1930 and the fumbling and helplessness of American leadership in the face of the Great Depression were doubtless major contributors to the subsequent international economic anarchy. England, on the other hand, having paid the penalities of injudicious currency and fiscal policies pursued during the twenties, developed during this later period considerably improved economic leadership and regained some of the influence lost between 1918 and 1931. The fluctuating pound and the Sterling Area were children of necessity, but British authorities knew how to make a virtue of necessity. While American leadership went from bad to worse

and previous blunders were matched by episodes like the immortal gold purchase experiment inspired by Professor Warren, British policy made the most of a basically not particularly enviable situation.

The problem now before us is not whether the United States will participate in the solution of post-war currency problems and international economic problems in general. The force of events will make some such participation inevitable.

The real post-war currency problem is whether the United States will be capable of assuming leadership in reconstruction and in world economic affairs in general. Such leadership implies the wise investing of funds abroad in the right amounts at the right time. It also implies the pursuing of a fiscal policy and a currency policy that will benefit both the United States and other countries within our economic orbit. Lastly, it implies a sense of trusteeship toward foreign balances and investments entrusted to our care, *i.e.*, a building up of the status of New York as the great international banking and loan center that the economic position of the United States permits and indeed requires.

The New Sterling Area

Unless we look for a gradual shriveling of national egos and a withering of national sovereignties after this war, genuinely international institutions will be just as unworkable in the future as they were in the past. While many people hope and some believe that such a withering of sovereignties will occur, it is safer to assume that in fact the great political forces of the post-war world will be the surging national consciousnesses of the victorious powers.

In such a world truly international institutions cannot flourish, but only those institutions that conform to the aspirations of the powers that assume leadership in them.

If, for instance, Great Britain succeeds in uniting Africa as well as the great Far Eastern and other colonial areas under British leadership, possibly as a United Nations mandate, the British Empire will have emerged from this war greater and more powerful than at any time in the past. Its rise will be all the more dazzling for the deadliness of the danger in which it found itself only three years ago.

An International Clearing Union dominated by such a power, so strong and wealthy and at the same time so experienced in international financial problems, is likely to be both successful and profitable to its member countries. It will fundamentally represent an extension and a great strengthening of the Sterling Area.[4]

[4] As mentioned before, the gold standard was a clearing system in the Keynes sense. In the new setup, bancor takes the place of gold as the medium of the ultimate settlement of international balances, having unlimited acceptability and being available in a fixed quan-

The big new elements of strength are chiefly two. First, the balance of payments of this increased Sterling Area with the rest of the world is likely to be favorable on current account or unfavorable only in amounts that are trifling as compared to its resources. Secondly, its immense resources will give a sense of safety to its participants that will reduce flights of short-term capital outside the Area to a minimum and in fact reëstablish the center of world banking, London.

The Keynes Plan is not a compulsory clearing system. On the other hand, it gives the Clearing Union powers far in excess of that of a clearing house; it creates a new means of exercising economic leadership; and, in the powerful and effective hands of such an enlarged and rejuvenated Empire, it will no doubt be immensely successful.

Problems of United States Leadership

Unfortunately, as yet the post-war aspirations and interests of the United States have only been defined in terms of the most Utopian generalities, if at all. Since we do not know in concrete terms what kind of world we want, nor what kind of world we can obtain, we are in no position to determine what institutions will be appropriate to our interests and aspirations and what techniques should be developed in order to promote the best interests of everybody concerned.

It is tempting to argue that bancor is completely superfluous because the United States dollar is or should be the bancor of the post-war world just as the pound sterling was the bancor of the world of the nineteenth century. Actually the matter is not quite so simple.

For one thing, such an attitude will encourage the belief abroad that the United States is unwilling to assume leadership in organizing and preserving the peace. Such a belief will add to the confusion and aimlessness abroad that is bound to follow in the wake of this war anyway. In its consequences it might not only have painful repercussions on our own peace and prosperity, but might contribute to an ultimate failure of the post-war settlements to establish a just and lasting peace.

On the other hand, before acquiescing in the economic leadership of

tity. Gold itself is unnecessary for the operation of the Plan and in fact undesirable. Nevertheless, Point (10) makes a generous provision for it. Unlimited convertibility of gold into bancor provides a guaranteed outlet for the yearly gold production of the world as well as for existing gold reserves. This bait to holders of large gold reserves and this protection to gold-mining interests was probably thought politically necessary to make the Plan acceptable. On the other hand, bancor balances will not be convertible into gold or foreign exchange, which is in the nature of the closed system that it is proposed to create. The pound sterling of the past decade was nominally in the same position and thus conformed to the vaunted principle of commercial banking. Yet, as a practical matter, gold had to be sold when the balance on all other transactions of the Sterling Area with the rest of the world turned deficitary.

the United States foreign countries will doubtless look for assurances that the United States will heed their interests at least within the limits compatible with the basic long-term interests of the United States itself. Past mistakes and one-sided measures that have affected the well-being of foreign countries will be quoted as arguments against the acceptance of American leadership.

In order to be able to assert its leadership on the basis of mutual consent rather than by force, the United States will have to develop plans for international institutions that will satisfy American aspirations and requirements within the framework and the limitations set by the aspirations and interests of smaller nations. In order that these institutions may be a lasting success, they will have to offer tangible benefits to all participants.

It is obvious that British interests and aspirations are entitled to the greatest weight in any such plan. There exists a community of interests between the United States and Great Britain in so many long-term objectives that an anti-British slant to any action we might take in international economic policy would be most unfortunate. More generally, the main objective of any such plan must be to forge strong and enduring bonds of mutual interests between all the major contracting parties. Otherwise it is inevitable that, after a lapse of a relatively limited number of years, one or the other side should develop a sense of grievance for having received the worst of a bargain. There is no surer way of losing the peace than to allow such a sense of grievance to develop and to sow the seeds of future recriminations through carelessly or improperly drawn plans.

In dealing with these international economic problems any United States Government agency would still have to give first consideration to the post-war economic problems of the United States. Among these the ones with the furthest-reaching international implications are the dangers to the American economy inherent in large exports immediately after the war followed by a loss of export markets as soon as Europe is reconstructed, and those inherent in the tremendous inflation of wage costs that has taken place in the United States during the past decade, which was not accompanied by a parallel increase in wage costs abroad.

The institutions to be created will have to be so organized as to be able to cope effectively with the post-war situation as it will then exist, rather than to fit an ideal scheme of things that might never materialize. Moreover, they will have to harmonize the need of the American economy for long-term stability with the requirements of the countries in need of reconstruction for large American exports first and large American imports afterwards. They will also have to take into account

factors like the great wage cost differentials (as distinct from differences in wage rates) that are likely to prevail and the radically changed relationship of Russia, Latin America, and the Far East to the rest of the world.

A discussion of the positive aspects of these agencies and institutions is restricted to generalities by our failure to crystallize our major peace aims. This much seems clear, however, that the institutions suitable for the purposes of international economic adjustments in general and especially for conditions as they will exist after this war are primarily institutions regulating the international flow of capital. In this respect what a large part of the rest of the world will require—and we will be in a position to grant if our terms, political or economic, are met—are partly long-term loans to help foreign nations put their houses in order and partly assurances that short-term credits will be forthcoming when required to help tide over temporary foreign exchange difficulties. The former have to be provided by international long-term investment agencies sponsored primarily by the United States and the latter by international clearing or stabilization funds similarly dependent on United States resources and sponsorship. It would clearly be to the advantage of everybody concerned if the other countries whose capital resources remained relatively unaffected by the war, such as the European neutrals, the British Dominions, and the countries of Latin America, were closely associated with the United States in these loan institutions to be created.

The most immediate economic problem that will face us at the end of hostilities will be that of making capital available to those foreign countries which will be desperately in need of outside resources. This capital is nominally made available in dollar exchange. In real terms it becomes available in the form of additional United States exports. If the United States is to make available both the goods needed for reconstruction purposes and the funds that will be used to pay the producers of those goods, then the United States must have the decisive word in who should or should not get such resources, in what amounts, for what purposes, and on what terms. It is therefore of the greatest importance, as well as of the greatest urgency, that the United States and the other countries with surplus resources should develop the necessary institutions for making capital available not only for immediate relief and reconstruction purposes, but also for long-term international economic development the world over. By carefully regulating the amount of capital it makes available to the rest of the world in any one year, such an agency of the United States might, in the long run, make a major contribution to the flattening out of fluctuations in business activity.

Foreign exchange stabilization funds can only be established in the last stages of economic reconstruction, after economic and political stability has been established. The suggestion that an attempt be made today, or even a year from today, to establish an enduring equilibrium rate of exchange between, let us say, the French franc and the United States dollar is perhaps in itself sufficient to demonstrate how impossible it is to accomplish this objective. Even in 1936-38 it was not possible to prevent a major depreciation of the French franc caused by unsound fiscal policies and political instability. More precisely, a stabilization of the French franc at any intermediate level before it reached its low after Munich would have meant, in substance, the financing of a large part of the French government deficits and/or of the flight of capital from France out of the resources of the United States.

Such situations are likely to be the rule rather than the exception after the war in Europe. Every aid should be extended to European countries trying to put their own houses in order. On the economic and financial side this can be done by outright gifts or by long-term loans granted by the United States. To grant similar funds to an International Stabilization Fund before the other issues are clarified and settled represents a commitment of a very different nature.

Once committed to the establishment of such an institution, the United States will not be able to back out without bringing the whole structure down with a crash. Consequently, if stabilization at the wrong rate loads up the Fund with a depreciating exchange, the United States will have to replenish it. In other words, prematurely established, the Stabilization Fund becomes a minor Dracula, it exposes the United States to periodic bloodletting without any tangible benefits in return. The United States should not commit itself to a potential financing of civil commotions and inflation in Europe in this manner.

The authors of the United States Treasury proposal apparently recognized these dangers. Their plan includes elaborate provisions to restrict the use of the International Stabilization Fund to the financing of current account transactions and to establishing at least a veto power for the United States on major issues.

It is not intended to belittle the care and sense of responsibility manifest in the draft of the United States Treasury proposal; but until we know much more than we now do about the political and economic conditions in the countries to be reconstructed and the loan funds to be made available to them, the adequacy of these safeguards will remain a matter of opinion. Dr. F. A. Lutz[5] seems to believe that they will not be adequate unless supplemented by an elaborate ex-

[5] Lutz, *op. cit.*

change control mechanism. That in itself would defeat at least one of the main purposes of the Fund. Moreover, a flooding of the Fund with weak foreign currencies is possible even if the attempt to restrict the use of the Fund to current account transactions is reasonably successful.

Nonetheless, the proposals of the United States Treasury serve a useful and valuable purpose. The United States must be ready with plans for an international currency mechanism to be put into operation after the long-term capital problems and the problems of political stability have been solved in the countries to be reconstructed. Such a currency stabilizing mechanism is a logical complement and sequel to any organized reconstruction operations and a valuable tool in asserting the economic leadership of the United States in world economic affairs in the long run.

Appendix

The proposals of the United States Treasury go into elaborate detail.[6] They are divided into six major sections, subdivided into forty-eight specific points.

I. *Purposes of the Fund*

(1) To stabilize exchange rates,
(2) to lessen balance of payments disequilibria,
(3) to promote the flow of trade and capital,
(4) to help unfreeze war balances,
(5) to reduce the use of exchange controls,
(6) to eliminate discriminatory exchange practices.

II. *Composition of the Fund*

(1) The Fund shall consist of gold, currencies of member countries, and securities of member governments.

(2) The aggregate of the quotas will be at least 5 billion dollars. The quotas shall be determined by a formula that should give due weight to the country's holdings of gold and foreign exchange, the magnitude of the fluctuations in its balance of international payments, and its national income.

(3), (4), (5), and (6) contain detailed provisions regarding the methods of paying in and changing quotas.

III. *Powers and Operations*

(1) To deal freely in gold, currencies, bills of exchange, and government securities; to accept deposits and to earmark gold; to issue its own obligations and to discount or offer them for sale; and to act as a clearing house,

(2) to fix exchange rates,

[6] A revision of the Treasury plan for an International Stabilization Fund was published too late for review in the Appendix.

(3) to sell to the Treasury of a member country the currency of another member country, provided that

(a) the funds are required to meet an adverse balance of payments on current account,

(b) the Fund's holdings of the currency of any member country shall not exceed 100 per cent of its quota in the first year, 150 per cent in the second year, and 200 per cent thereafter, except if measures are to be taken or conditions are such that the disequilibrium is likely to take care of itself,

(c) a special reserve is established if the Fund's holdings of a currency exceed the quota,

(d) the Board may impose restrictions if a country is exhausting its quota unduly rapidly,

(e) a charge of one per cent per annum shall be levied on the amount of currency holdings in excess of the quota,

(f) the Fund can resell to a member country its excess holdings of the member's currency for gold or other foreign exchange.

(4) a member country only has the right to buy foreign exchange from the Fund with its local currency to the extent of its quota,

(5) to grant the financing of capital transfers at the discretion of the Board,

(6) to report on the conditions and causes of the disequilibrium when the Fund's holdings drop below 15 per cent of the quota of a currency and after the Fund has used for additional purchases of that currency that country's original contribution of gold and securities,

(7) to consult and make special arrangements to deal with a threatening scarcity of any currency,

(8) each member country agrees to sell to the Fund for its local currency or for foreign currencies it needs all the foreign exchange and gold it acquires in excess of the amount it possessed immediately after joining the Fund. Each member country agrees to discourage the unnecessary accumulation of foreign balances by its nationals.

(9) to buy from the governments of member countries abnormal war balances held in other countries provided ten stipulated conditions are fulfilled. The most important of these provisions is a twenty-three year unfreezing provision,

(10) to deal in non-member country currencies,

(11) to borrow member country currencies,

(12) to sell member country obligations,

(13) to invest its currency holdings in securities,

(14) to lend to any member country its local currency for one year or less,

(15) to levy a pro rata share of the expenses,

(16) to deal only with or through treasuries, stabilization funds, fiscal agents, central banks and international banks owned predominantly by member governments. It may sell its own securities or securities it owns directly to the public.

IV. *The Monetary Unit of the Fund*

(1) The monetary unit of the Fund shall be the unitas, equivalent to $10.

(2) The value of the currency of each member shall be fixed in terms of gold or unitas,

(3) unitas deposits will be accepted on the delivery of gold against which 100 per cent reserve will be held,

(4) no change in the value of the currencies of member countries shall be permitted to alter the value in gold or unitas of the assets of the Fund. In other words, the country whose currency is depreciating has to make good to the Fund the loss in the gold value of the currency holdings of the Fund.

V. *Management*

(1) The administration of the Fund shall be vested in a Board of Directors. Each government shall appoint a director and an alternate. The distribution of voting power shall be related to the quotas. No country shall be entitled to cast more than one-fourth of the aggregate votes. All decisions are to be made by a majority excepting the frequent cases in which four-fifths votes are stipulated.

(2), (3), (4), (5), (6), (7) contain provisions for a managing director and operating staff, an executive committee of not less than eleven members, other committees, delegations of authority, procedures, annual and other meetings.

(8) A country failing to meet its obligations to the Fund may be suspended provided a majority of the member votes so decides. While under suspension the country shall be denied the privileges of membership but shall be subjected to the same obligations as any other member. After two years the suspended country is automatically dropped.

(9) Any country may withdraw from the Fund on two years' notice.

VI. *Policies of Member Countries*

Each member country of the Fund undertakes the following:

(1) to maintain by proper action the exchange rates established,

(2) to abandon as soon as in its opinion conditions permit all restrictions and controls over foreign exchange transactions other than those involving capital transfers,

(3) to coöperate effectively with other countries when such countries with the approval of the Fund adopt or continue controls for the purpose of regulating international movements of capital. This will include

(a) a refusal of deposits, securities, or investments by nationals of any member country imposing restrictions on the export of capital,

(b) to make available full information on all property of the nationals of a given member country,

(c) such other measures as the Fund shall recommend,

(4) not to enter upon any new bilateral foreign exchange clearing arrangements or engage in multiple currency practices,

(5) to give consideration to the views of the Fund on existing or proposed monetary or economic policy,

(6) to furnish the Fund with information and reports,

(7) to adopt appropriate legislation to facilitate the activities of the Fund.

SUBSIDIES AND INFLATION

By Seymour E. Harris*

This paper presents the pros and cons of the important problem of subsidies in a system of war economics, a subject which has not received adequate attention from economists. In Section I, several alternatives to subsidies are explored, since they may be preferable to a subsidy program in particular areas. Under certain conditions, a rise of prices might be the lesser evil.[1] Again, large price increases might be averted even in the absence of subsidies. The government has used with great success the techniques of averaging costs and differential pricing. If these techniques are not practical and a rise of prices is to be avoided, the government may then have to resort to subsidies.

The objectives of subsidies are considered in Section II. One objective is a reduction in the cost of living or a moderation in its rate of increase. Another and related objective is the prevention of a rise of prices for all supplies to a level set by marginal costs. By paying to producers or suppliers in the form of a subsidy the excess of marginal costs over average costs, the government can encourage additional output and yet prevent a rise of marginal costs from being translated into a corresponding increase in prices for all units.

The more important categories of subsidy procedures are examined in Section III. (1) Government purchase and resale has been used widely in the industrial area; but not sufficiently for the purpose of reducing the cost of living. (2) In subsidizing additional costs involved in high cost and additional output, the government has, in various ways, stimulated output. (3) A disguised subsidy is involved in the assumption by the government of certain services which private enterprise is unable or unwilling to perform at a reasonable price, and in the sale of these services by the government, under certain conditions, below costs.

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[1] The Canadian Minister of Finance has said that subsidies are used "in the interest of the consumer . . . when there is no other way of assuring adequate supplies . . . at prices permitted by the price ceiling." Dominion of Canada *Report of Wartime Prices and Trade Board, September 3, 1939, to March 31, 1943*, p. 22.

The inflationary and cost aspects of subsidies receive attention in Section IV. Subsidies involve the government in additional outlays and, in the current state of public finance and the money market, in additional borrowing from banks. Yet against the apparent costs are to be put the following: (1) An improvement in the structure of prices may be effected since subsidies reduce prices of essential commodities and the increased purchasing power is distributed over the entire economic area. (2) The rise of costs may signify little because, in large part, subsidies are paid out for commodities which will be used to fulfill government contracts. What one agency pays out, another gains. (3) As the largest purchaser of materials and labor, the government may gain more than it loses in additional disbursements.

Finally, in Section V the British experience is given in evidence of the net gains of a subsidy program. Subsidies are a *sine qua non* of stabilization of the cost of living and, when used in conjunction with proper wage, farm, and fiscal policies, they can assure stable living costs and wage rates. Stability of the cost of living will then contribute greatly to uninterrupted production and peaceful labor-capital relations.

No economist will deny that difficult political and administrative problems arise which may jeopardize the success of a subsidy program, and particularly so in the United States. May not the program be extended too far as a result of the pressure of special group interests? Will not many be paid subsidies because of administrative ineptness or dishonesty, in the case of a meat subsidy, for example, who do not slaughter and sell animals? Will the consumer actually profit from payments to creameries if rigid enforcement of butter prices by wholesalers and retailers is not assured? These are vexatious problems. The statesmen must weigh them against the strong economic arguments for subsidies. My considered judgment is that the economic arguments are strong enough to outweigh the political and administrative considerations which, at least in some respects, may be invoked against subsidies.

I. *Alternatives*

One must not assume too readily that the alternatives are limited to (1) a rise of price for the whole supply by the excess of marginal costs over the cost of the bulk of the commodity or (2) to government subsidies. It is possible for a central agency to purchase high-cost increments and other supplies and to sell at average cost. In this manner, a commodity that costs 10 cents at home and 15 cents abroad (the respective ratios of supply being 6 to 4) might be sold at 12 cents. Sales revenue would then equal cost.

This averaging of costs has been used in many cases. Defense Supplies Corporation, for example, purchases sisal in Africa at one price and in Latin America at another. The selling price is then averaged. A partial subsidy is involved in this case, however. A clear-cut case of averaging will be found in cresylic acid under War Production Board allocation. The imported portion of the supply is one-third or more higher in price than domestic cresylic acid. The supply is allocated in such a way that buyers are in a position to average out. In this case, the government controls total supply, but does not purchase and sell. Part of the additional cost, of course, is passed to the purchaser. This technique is practical when the government controls total supply. It may be the only practical system when supplies come from numerous markets and costs vary greatly.

Where the government does not participate in this manner or through subsidization, the rise of costs may equal the excess of marginal over bulk-line costs times the total number of units. In many cases, the price of domestic supplies will not rise to the costs of marginal (*e.g.*, costs of imported supplies) units. In the absence of interference through a subsidy or averaging process, prices will tend to rise. But where foreign imports are small and demand at home not very strong or insistent, prices will tend to settle at the domestic level. Demand will be reduced as prices rise toward the level dictated by domestic costs.

The more insistent is demand, the larger the contribution of foreign supplies, and the greater the excess of foreign over domestic costs, the greater is the danger of serious upward revision of prices for supplies from domestic sources. Since, on the whole, shipping is used for the importation of strategic commodities—that is, commodities for which demand is insistent, and which cannot be dispensed with—the effect on prices of importing high-cost imports is likely to be serious. Subsidies, averaging, some form of absorption as is provided under Supplementary Regulation No. 12 to the General Maximum Price Regulation, or differential pricing will then be required if the higher import prices are not to be translated into a higher general price level *pari passu* with the increase of marginal costs.

We may put three cases as follows:

	Output	*Cost*
Domestic	200 million units	10 cents
Foreign	50 million units	20 cents

A. *Subsidy*. The government absorbs losses equivalent to 50 million × 10 cents (foreign cost minus domestic cost) = \$5 million.

B. *Averaging prices.* The government pays out $30 million:

200 million units @ 10 cents =	$20 million
50 million units @ 20 cents =	10 "
	$30 "

The government sells:

250 million units @ 12 cents = $30 million

No losses are involved.

C. *No intervention by government.* Private purchases are made at 20 cents abroad. Prices rise to 20 cents. The total outlay by consumers is then 250 million × 20 cents, or $50 million.

	Price	*Total Outlay by Consumers*	*Savings to Consumers in Relation to Costs under C*	*Loss to Government*
A. Subsidy	10 cents	$25 million	$25 million	$5 million
B. Averaging	12 cents	30 million	20 million	——
C. No intervention	20 cents	50 million	——	——

There is still another way of preventing high-cost units from sending prices of all units upward. Differential pricing provides varying prices according to costs and the capacity of the buyer to pay. Where markets are segregated, the government might fix price X for one market and $X + a$ for another. Under systems of allocation, the government might allocate low-cost units to government contractors and, in general, to more essential uses; and high-cost units to less essential uses. In many cases (*e.g.*, cement) the government will pay the high prices since public contractors are able to absorb. In the bristle program, high-cost bristles are allocated to processors who absorb and sell to brush manufacturers, and low-cost units are used for cordage where absorption is more difficult. Unless distribution is carefully controlled, buyers in less essential areas will try to buy in low-cost markets, thus putting pressure on these markets.

Differential pricing provides a method which might be used as an alternative to averaging of costs or to a subsidy system. In general, differential pricing is to be preferred to the averaging system. Although average prices are the same under differential pricing as under averaging, the burden of the rise is less under the former than under the latter. This follows because, through a segregation of markets induced by an allocation system or in some other manner, the high-cost items may be distributed to those who can more easily bear the burden of high prices. Clearly, however, the possibilities of setting up a system of differential pricing will depend on the organization of the market.

II. *Objectives*

Under what conditions are subsidies proposed? First, the government may offer subsidies in order to stimulate the output of high-cost increments that are considered essential for the prosecution of the war. Examples are (1) purchases of imports by R.F.C. corporations at prices in excess of the domestic level and resale at prices below costs; (2) the proposed (and rejected) incentive payments to farmers for additional output of nonbasic farm products; and (3) the payment by the government of a premium to cover additional costs of nonquota output of nonferrous metals. This type of subsidy is justified on the grounds that the purchaser (public or private) will be saved much money through government intervention: prices of total supply will not rise by the increase of marginal costs.

Second, subsidies may be involved when the government underwrites risks that are too great for private underwriting, or that would be covered at excessive prices by private interests. One example is war risk insurance and another is the industrial facilities program. Two aspects of this problem are to be distinguished. Since government's capacity to take risks is greater, the charge is lower than if assumed by private enterprise.[2] Government intervention to that extent saves the purchaser money and the government therefore not only contributes toward lower prices, but the reduction is not entirely at the expense of government. In fact, the government as a purchaser pays less, not more. The insurance program and the facilities program will, however, probably involve the government in a net outlay. Not only are costs and prices reduced, but the reduction is likely to be in part at the expense of the taxpayer. Insurance rates may be reduced from 6 to 3 per cent as a result of coverage by War Shipping Administration; but the actual cost to the government may be 4 per cent. (The figures are hypothetical.) Costs of subsidies, observe once more, are probably lower than they at first seem if allowance is made for the reduction of costs.

Third, subsidies are also designed to keep down the cost of living, an objective which may overlap the other objectives. In many instances, the government decides that extraordinary costs which fall on particular commodities but which are properly chargeable to the prosecution of the war, should be charged to the Treasury. Recent programs (May-June, 1943) designed to roll back the prices of coffee,

[2] In purchasing from private enterprise, the government relieves the business man of the necessity of insurance against uncertainties (*e.g.*, termination of contracts); the coverage of these risks by private sources is too costly. Similarly, private underwriters, in order to cover themselves adequately, charge excessively for marine or war risk insurance.

meat, and butter are the most ambitious attempts yet made to prevent excessive increases in the cost of living.

When it is once decided that a rise of prices is to be opposed vigorously, then a subsidy to suppliers may well be in order. If, at a price for an essential commodity, determined in accordance with broad anti-inflationary objectives, producers will not produce adequately or owners will not sell, a subsidy will be required. Farmers, for example, may be compensated for the difference between their total costs and the prices at which the stabilization program requires sales to distributors or consumers. Under an ideal program, the farmers will obtain subsidies just adequate to give them the incentive to produce the required output.

Subsidies should be given serious consideration only after certain other alternatives have been exhausted. In so far as it is *practical* and *equitable*, for example, the burden of stabilization of prices, in the face of rising costs, should be put upon profits.[3] It is not unlikely, however, in any case, that the entrepreneur will generally increase or maintain output even in wartime if his direct costs are not covered.

Higher costs may then be offset by reduced profits; but direct attacks may be made on costs. Thus the government should aim to achieve all practical economies through concentration, simplification, and standardization. Actually, it is frequently not easy to discover whether entrepreneurs have been required to absorb a fair share of additional costs or whether practical advances in concentration, simplification, and standardization have been achieved. Action must frequently be taken before much progress can be made along any of these lines and therefore the choice may come down to a rise of prices or a subsidy.

A strong argument for subsidies follows from the fact that, in the fight against inflation, the presumption is against any rise of price. (1) A rise of prices affects all producers and therefore gives the low-cost producers windfall profits. In contrast, subsidies prevent the necessity of a rise of prices for high-cost producers from being translated into a rise of prices for all sellers. (2) The rise of profits associated with an increase of marginal costs in turn is an occasion for a rise of wages, and the rise of wages in turn induces further price increases. This spiraling process goes on *ad infinitum*. (3) Prices in the United States are related to prices abroad and if the price of coffee rises in the United States (for example), there is increased pressure for the Brazilians to ask a higher price for coffee. (4) An increase in the price of domestic commodities brings about an increase in the price of ex-

[3] In determining prices, the Office of Price Administration has been required to take into account the level of profits.

ports, and the increase in the price of exports in turn brings pressure on foreign sellers to increase their prices. In the present days of cartel controls, the interrelationship of export and import prices may be closer than under strictly competitive conditions. (5) Pyramiding is likely to take place because sellers generally adjust their prices on the basis of a percentage mark-up. The higher the cost of acquisition, therefore, the higher the selling price. In short, the prevention of price spiraling is an important reason for support of a subsidy program.

In the year 1943-44, the danger of a rise in prices is especially great, not only because of the excess of demand for civilian goods over supplies at current prices, but also because we have reached a position of full employment. What is perhaps even more relevant is that it will now become necessary to substitute more costly factors of production for less costly factors, and also to expand output of raw materials at higher unit costs. The substitution of women for men in the labor market, of old for young, the greater recourse to overtime, the redistribution of man power geographically and industrially, the greater pressure on natural resources, the increased use of transportation facilities—all of these will put pressure on our stabilization program. If the rise of unit costs is not to bring higher prices, subsidies will undoubtedly be required.

Finally, I end this section with a word on administrative problems. Particularly where the control of distribution is not practical, so that higher costs may be averaged out through governmental intervention, a subsidy system is likely to be advantageous. The administrative difficulties of paying subsidies to large numbers of business men preclude the use of subsidies at the retail level. In general, they should be paid to relatively few entrepreneurs, and for that reason they should be distributed at a level which involves relatively few business men. They should be paid to the relatively few manufacturers rather than to numerous wholesalers and retailers. The manufacturer would then be asked to sell a commodity at a price to consumers which, allowing for the mark-up by the wholesaler and retailer, would be consistent with the general objectives of price control. If the price of meat rises too much, for example, it might be desirable to subsidize the slaughterers who would then be asked to sell to distributors at a given price; and the distributors in turn would be required to sell to butchers at a designated price; and so on. Similarly, the subsidy on bread would be much more easily administered if payments were made to millers rather than to bakers. Where payments are to be made to many (*e.g.*, incentive payments to farmers), the arguments on other grounds need to be very strong.

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III. *Techniques*

Government Purchase and Resale

The government purchases numerous metals abroad: antimony ore, copper, tin, bauxite, chrome, manganese, etc. These commodities are sold at ceiling prices which are almost invariably less than landed costs. In some cases, transportation and insurance charges alone may be in excess of the ceiling price. Since sales of metals are made largely for government account, the subsidies involved are much smaller than they at first seem.

In addition to these purchases of metals, the government buys hundreds of miscellaneous commodities. In many instances, the need is great, and the government will purchase at any price which will assure adequate supplies. Where the purchase price is higher than the appropriate selling price at home, the government will suffer losses. Its purchases of rotenone in South America or pyrethrum in Africa are made at high prices. Since these commodities are essential in farming, and since later ceilings are based on the prices of the raw materials, the agencies are asked to sell at prices consistent with ceilings on the processed products. In this manner, the economy is protected against disturbing price changes.

Unfortunately, our government has not participated in public purchase programs as part of a deliberate plan for keeping prices down. Gains in lower prices have been incidental as a rule. Government purchases generally originate in the necessity of assuring adequate supplies. In Great Britain, government purchase of foodstuffs and resale at depressed prices have been a central part of an anti-inflation program.

When the government sells below cost for public use, as is noted later, the losses are fictitious. One government agency loses money and another gains. It is important that, in general, the agency should be forced to sell at ceiling prices which are determined by broad considerations of economic policy. If the commodity is to be used for public purposes, there is no gain involved in allowing the agency to sell above the ceiling price. The British have discouraged sales by one governmental agency to another at prices in excess of ceilings.

The reasons for not allowing government agencies exemption from price ceilings may be summarized as follows:

1. A general exemption would have serious effects on outstanding Army contracts. In the case of cost-plus contracts, the rise of costs would be automatic. In the case of the more general fixed-price contracts, the result would be that contractors would raise the issue with the Army of absorption of additional costs, and innumerable contracts would have to be reconsidered.

2. There is the danger of pyramiding. A rise in the price of raw materials sold by these agencies may yield a much larger increase in costs to the ultimate consumer as each handler of the product adds to the original increase. Since the majority of purchases by these agencies consist of raw materials, this consideration is of great importance.

3. An even more important problem is the relation of prices paid by government agencies and government contractors to the prices charged for civilian goods. When government agencies bid up prices and sell at higher prices, there is increased pressure on civilian sellers of similar and competing commodities to obtain higher prices.[4] This follows not only because of the direct interrelation of these markets, but also because the prices paid by public agencies and government contractors influence prices in another manner. What is sold to government agencies and contractors goes, in no small part and at later stages of production, into civilian use.

What is more, it is difficult, if not impossible, to distinguish at any stage the ultimate use of a particular product sold to a government agency or contractor. Any rise in the price of a commodity sold by an agency increases, therefore, not only the costs for other government departments but also those of civilian consumers. Frequently, ceilings are specifically tied to the resale price of government agencies, and exemption for procurement agencies from the pressure of ceilings would require upward revisions in many of these ceilings. For these and other reasons, resale prices of government agencies are generally subject to control.

Government Payments to Cover Increased Costs

Averse to public participation in buying and selling programs in the anti-inflation program, the government has relied on direct payments to sellers or producers. Numerous examples may be given of this technique.

1. The Roll-Back Program of May-June, 1943, was designed to roll back prices of meat, coffee, and butter by 10 per cent, and to reduce the cost of living by less than 1 per cent. The payments were to be made to the processors, *e.g.*, creameries and slaughterers, who in turn would sell at reduced prices. This is an unusual subsidy program since producers receive payment per pound of meat and butter irrespective of their costs and profits.

Very difficult problems are raised by such a program. It will not be

[4] Government agencies have frequently asked the O.P.A. permission to sell at prices in excess of ceiling prices. They thus hoped to avoid losses. Yet it is difficult to justify exemptions for the government which are denied private enterprise.

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successful unless the wholesale and retail ceilings on these products are enforced. In the absence of enforcement, the subsidy payments will inure to the benefits of the processors and (or) middlemen, who will obtain windfall gains. A second problem is that of timing the payments in such a manner that sales of existing inventories can be made at the higher pre-roll back prices. A third problem is the avoidance of a squeeze on the farmer. Should prices to farmers fall either because of other factors in the situation or the ability of the processors or middlemen to roll back prices at the expense of the farmer, the program will meet a political death. If it succeeds, the pressure for higher wages will be reduced to that extent.

2. Another example of this technique is government coverage of increased transportation charges. Thus the diversion of oil shipments from water to land involved the oil companies in large increases of costs. In so far as absorption of higher costs by sellers was not possible, the alternatives were a rise in ceiling prices or a subsidy to cover higher transportation costs. The government also bore the higher transportation costs involved in shipping coffee and cocoa into this country. By absorbing the higher costs, the government was able, through a payment of $\frac{1}{2}$ of 1 cent per pound of coffee, to cover increased transportation costs that varied from $\frac{1}{4}$ to $1\frac{4}{5}$ cents per pound.

3. The imposition of the General Maximum Price Regulation in March, 1942, confronted distributors of vegetable oil products with a serious squeeze. It was not possible to roll back prices to the farmers. Hence, here again the government, through disbursements by the Commodity Credit Corporation, was able to reduce prices to the distributors. In this manner the distributors once more were able to buy vegetable oil products at a price consistent with their resale prices under the G.M.P.R.

Sales of Government Services Below Cost

In time of war the government becomes an entrepreneur in many areas controlled by private enterprise in peacetime. Control of shipping and war risk insurance are examples. In the sale of shipping services and freight, the government is in a position to subsidize imports. In order to assure continued imports in the face of rising costs and relatively stable prices of resale in the United States, the Office of Export-Import Price Control formulated, in coöperation with the War Shipping Administration (W.S.A.), a program for reducing the delivered price of imports. Rates for war risk insurance, for example, were reduced to those in effect January 1, 1942. Luxury items were, however, subject to compensatory (*i.e.*, cost) rates.

The savings on delivered prices for imports are estimated at 60 million dollars annually, though losses to the government have probably been less. (Compensatory rates are probably estimated at a level higher than is necessary to cover costs; and part of the imports are used in the fulfillment of government contracts. In such cases, the loss to the W.S.A. is offset by gains to other agencies.) In several instances, the W.S.A., at the instigation of the Export-Import Price Control Office, also agreed to reductions in surcharges on freight. When, for example, the delivery of newsprint from Newfoundland to the South was jeopardized, the alternatives were an increase in the ceiling price of all newsprint or a subsidy payment for the deliveries from Newfoundland. A reduction in the surcharge on freight for newsprint from Newfoundland to the South solved the problem.

The following principles prevailed in the formulation of the O.P.A.-W.S.A. subsidy program:

1. The imported product favored by artificially low rates must be essential.

2. Importation should ordinarily be by private interests. (Where commodities are brought in by public agencies, the payment of lower rates involves a transfer of funds from one agency to another. In some instances, however, the W.S.A. has subsidized the Commodity Credit Corporation.)

3. The resulting reduction in costs should not result in a windfall gain to the importer or any other distributor. It is not helpful, for example, to reduce war risk insurance rates if imports are a small part of total supplies in the United States and demand is elastic to some extent, so that prices are determined by the costs of domestic output and not by the contribution of the foreign country. In these circumstances a reduction would merely improve the profit position of private enterprise at the expense of the government. Again, any reduction should automatically be passed on to the buyer where the objective of the reduction is a decline of prices.

4. Where the effect on the domestic economy of a rise of prices was not likely to be serious, it was preferable to raise ceiling prices rather than to put the burden of assuring the continued flow of imports on the public exchequer. An example is the pending price regulation on imported distilled liquors. In a limited number of cases, the best way out seemed to many neither to allow increases of prices nor subsidized rates on insurance or freight. In these instances, one of three possible results would follow: (1) the commodities would no longer be imported; (2) the foreign seller, unable to find alternative markets or other uses for the factors of production employed in producing the exported commodity, would reduce the selling price, thus assuring con-

tinued sales at low American ceiling prices; or (3) a black market would develop. On the whole, the effect of rigidity of domestic prices in the face of increasing costs abroad and the rise of shipping and insurance costs has been either violation of price ceilings or discontinuance of sales in the American market. The way out seems then a flexible price ceiling for these luxury and semi-luxury items which will allow recovery of costs. In this manner, the supplies of imported commodities will rise and to that extent the inflationary gap be reduced.[5]

IV. *Inflationary Aspects of Subsidies*

Payments of subsidies have certain inflationary effects which should be considered as at least a partial offset to the deflationary effects. Subsidies must be financed. In the present situation, one may assume that expenditures required to finance subsidies will be inflationary. That assumption is made because the government will presumably fix the tax burden at the maximum, irrespective of subsidy requirements. Assume that subsidies will require 3 billion dollars annually and that total federal expenditures are to be 110 billions, the latter being the figure proposed by the President for 1943-44. My contention is that, irrespective of the payment of subsidies, the tax bill will be 50 billion dollars as proposed by the President, or 40 to 45 billions, as seems more likely. Once expenditures attain 100 billion dollars, the size of the tax bill is determined by considerations other than the exact level of public expenditures. In other words, the excess of disbursements over tax receipts will be increased *pari passu* with the payment of subsidies.[6] Against this increase in pressure on all markets is to be put the gains to be associated with concentrated reductions of prices in very essential areas.

So far we have assumed that the subsidies involve the Treasury in additional expenditures. In the next section it will be argued that this is not necessarily the case. If subsidies net a saving to the Treasury, then this discussion of the pressure of additional purchasing power is irrelevant.

Subsidy payments on commodities to be used now or ultimately for public purposes are to be distinguished from those to be used privately. This distinction is of great importance since the government's expenditures in 1943-44 will be in excess of two-thirds of the national income.

[5] A program along these lines is being given very serious consideration at the present time.

[6] There is one reservation required here. The purchases of bonds out of cash balances that might otherwise have been spent had prices been higher (in the absence of these subsidies), will be increased. In part, however, the money saved on subsidized commodities will be spent on other commodities.

What the government pays out in subsidies, it recovers in its capacity as buyer. Savings in buying prices are larger, moreover, than they at first seem because any rise of prices tends to have a pyramiding effect. There is no subsidy involved where the government (*e.g.*, the Metals Reserve Corporation) buys at 20 cents and sells to a government contractor at 15 cents. Such transactions are, in the long run, likely to save the Treasury money. Pyramiding is thus discouraged. Metal Reserve's losses (for example) are offset by equal or larger savings by the Army and other procurement agencies. The vast expenditures of government procurement agencies which are not recovered in the selling price should not, therefore, for the most part be considered subsidies.

The political prejudice against subsidies may be reduced if it can be demonstrated either that the subsidy would save the government money in the long run; or, second, that the reduction in the cost of living might be very large as compared to the cost of the subsidy.

Let us discuss the first issue first. We may use as an example the issue of the incentive payments to farmers. It is clear that the payment of 100 million dollars for incentive payments on nonbasic farm products will save the consumer many times the 100 millions. Objection on the part of the farm bloc arises because they prefer a general rise of prices for all sellers of the nonbasic farm products, rather than a subsidy to high-cost producers. The payment of the subsidy would, in general, keep prices down on numerous products. The pressure for a rise of wages would therefore be reduced, for wages rise in response to higher costs of living. Since the government is planning to spend two-thirds of the national income, and since wages are roughly one-half of the national income, it is evident that any success in keeping down farm prices will save the government large sums of money. The government will gain more, not only because wages are kept down, but also because the government is a very large purchaser of farm products. In short, it may be argued on purely fiscal grounds that a subsidy program in many instances will reduce the budgetary deficit, rather than increase it.

For the purpose of considering the relative magnitude of the savings to the consumer and the cost to the Treasury, let us assume that the cost to consumers of an essential item is reduced by one billion dollars by virtue of government subsidies. If the cost of living were reduced by one billion dollars and a subsidy cost 100 million dollars, it would generally be agreed that the subsidy was worth while. The cost of living would be reduced, of course, in the essential areas.

When the consumers are saved a billion dollars, they have one billion dollars more available for increased consumption, taxation, or loans to the government. Where rationing becomes widespread, recourse to

additional consumption faces increasing obstacles. Additional tax capacity is distributed among all classes and is not concentrated in the entrepreneur class, as would follow if, as an alternative to the subsidy program, prices (and hence profits) were allowed to rise in response to higher costs. A tax program will certainly tax away a large part of the excess profits earned when the subsidy plan is not used; but not all. Entrepreneurs with low costs will get large excess profits while those with high costs may get no additional profits as a result of the rise in prices.

The differences in the two methods may be put as follows: Where prices are allowed to rise, the consumer pays more and the increased tax capacity is found in the entrepreneur class. Under a subsidy program, the government gains in that a further rise in the cost of living and wages is prevented. Furthermore, since prices are kept down, a better distribution of goods results because low income groups are thus able more nearly to obtain the goods that they require. And a larger part of any untaxed income associated with the subsidy program and lower prices will be left in the hands of the lower income groups than under a nonsubsidy pricing program.

Large savings may be made for industrial users also. The government consumes most of the lead, zinc, and copper mined currently. It has been estimated that the premium system paid for high-cost quotas has cost the government 20 million dollars; but total savings were 400 millions.

V. *British Success with Subsidies*

That a subsidy system can be used with great effectiveness is evidenced by the British example. Their great success in stabilizing prices since 1941 is associated in no small part with the subsidy program. Of the British food index which covers 14 products, 11 products, representing about 90 per cent of the weighted index, are subsidized. The major payments are made to keep down the price of bread, flour, milk, meat, and potatoes. The cost of food fell from 124 in April, 1941, as compared with a pre-war value of 100, to 120 in December, 1942. Subsidies are applied in order (1) to move fish to areas where it otherwise would not go because of the burden of transportation costs; (2) to increase agricultural output; (3) to divert milk and eggs to low income consumers. The British also subsidize bakers and millers to keep the price of bread down. In many cases, they purchase imports at one price and sell at a lower price, and control mark-ups by distributors.

That subsidies may even save the Treasury money may be gathered from the following rough calculations for Great Britain. Figures are

based on *An Analysis of the Sources of War Finances, and An Estimate of the National Income and Expenditures in 1938, 1940, and 1941:*

Subsidies in 1941 = £139 million	*1941* (£ million) (1)	*Per cent of subsidies in 1941 to items in column (1)* (2)
Personal expenditures	4,550	3.0
Government expenditures	5,107	2.7
National income	6,338	2.2

It may be assumed that subsidies have contributed significantly to the reduction in the cost of foodstuffs and to the prevention of further rises. The retail cost of foodstuffs declined by 4 per cent from April 1, 1941, to the end of 1942 and the total cost of living rose by 1 per cent. Even if it were assumed that the cost of living would have been only 10 per cent higher in 1943 than it actually is, large savings would have accrued to the government. If we assume that labor accounts for one-half of total government expenses, a rise in the cost of living of 10 per cent would have resulted in an increase in labor costs to the Treasury of £250 million, or roughly twice the cost of the subsidy. We assume here that wages would follow rises in the cost of living closely. Observe also that the rise in the cost of living might well have been of the order of 50 per cent in these 2-3 years, had price control not been introduced.

The subsidy program is an integral and important part of the price control program. In fact, stabilization of prices and wages, as provided in the spring of 1941, would not have been practical without the subsidy program. The cost of living had risen by 25-30 per cent in the preceding 18 months and might well have risen another 15-20 per cent per annum in 1941-43 had not a vigorous subsidy program been launched.[7]

Without attempting a summary of the paper, a few conclusions should be emphasized.

1. A well administered subsidy program will save consumers much more than the cost to the Treasury.

2. Against the outlays by the Treasury are to be put savings to the government as purchasers of materials and labor. A probable outcome is a *net* saving to the Treasury.

[7] *Cf.* Dominion of Canada, *Report of the Wartime Prices and Trade Board,* p. v. Cost of subsidies for the first 15 months of the price ceiling (ended February 28, 1943) were 68.6 million dollars. These costs are small compared to the rise of 350 millions in the cost of consumer goods which might easily have been incurred in the absence of the price ceiling.

3. Subsidies are, therefore, probably anti-inflationary; and even if a price rise should result, the rise will be spread thinly over the whole economy and the reduction will be concentrated in areas of very essential commodities.

4. Subsidies cost much less than they at first seem. For the most part, outlays are recouped by savings on government contracts. What one government agency loses as seller, another gains as buyer. Here I have in mind a somewhat different point from that made under No. 2 above. The government gains because its agencies and contractors buy directly from government agencies that sell at a loss. This is the importance of point No. 4. In addition, the government gains because there is less pyramiding, as prices of labor and farm products and mark-ups are kept in check. That the government will probably save money through a wise use of subsidies (as is argued in point No. 2) is explained by both these considerations.

5. Finally, why are subsidies not used more widely in the United States?

a. In view of other fiscal operations, the prejudice against deficit spending can be passed over. In any case, this consideration is probably irrelevant. The cost to the government may well be nil; and even if there is a cost, the much larger gains in lower cost of living and political stability are to be considered.

b. There is great danger of abuse. This is a particularly important matter in the United States where group interest wields much political power. Perhaps the smaller influence of groups in Canada and the United Kingdom than in this country explains the greater popularity of subsidies in those countries where deficit financing is considerably less popular than here. The answer to the argument of danger of abuse is that subsidies should be determined on nonpolitical grounds by a public body not subjected to political pressures. This is, of course, much easier said than done.

c. Administrative complications are a deterrent and should be. Yet careful choice of the areas of subsidies and the level at which they are to be paid will reduce the weight of this factor.

d. Subsidies are frowned upon by Congress because it is not disposed to trust administrators with the use of large funds.

MOULTON'S *THE NEW PHILOSOPHY OF PUBLIC DEBT*[1]

By David McCord Wright*

I

"It is not enough for the knight of romance that you agree that his lady is a very nice girl—if you do not admit that she is the best God ever made or will make you must fight. There is in all men a demand for the superlative, so much so that the poor devil who has no other way of reaching it attains it by getting drunk."[2]

In these famous sentences Mr. Justice Holmes long ago summed up that preference for oversimplification and dogma which is one of the besetting weaknesses of human controversy. Today the same urge for the superlative of which he spoke manifests itself with particular force in the current discussion of the national debt. Most laymen must have it that the public debt is either a monster crushing out our lives, or else that it involves no burden, entails no cost, and is the sole condition of freedom.

On a first reading, Dr. Moulton's extremely interesting study is likely to appear a continuation of the same strain of argument. The dangers of the debt are magnified and constantly repeated, while the short volume—but ninety-three pages in all—fairly bristles with dogmatic statement and highly colored adjective. More careful reading, however, gives a different impression, and a thoughtful reader may well conclude that Moulton, in spite of himself, is in far greater agreement with his opponents (for example, Professor Hansen) than he ever admits. Lest the casual reader be misled by the polemic character of Moulton's work, we may begin by summarizing the points on which he and his opponents may fairly be said to agree and then pass on to points of difference.

In the Brookings trilogy, *The Distribution of Income and Economic Progress*, Dr. Moulton gave a version of the "over-saving" thesis which would not, I feel certain, receive the unqualified support of

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[1] H. G. Moulton, *The New Philosophy of Public Debt*. (Washington: Brookings Inst. 1943. Pp. vi, 93. $1.00.)

[2] O. W. Holmes, "Natural Law," *Harvard Law Rev.*, Vol. 32 (Aug., 1918), p. 40; reprinted in *The Dissenting Opinion of Mr. Justice Holmes* (New York, Vanguard Press, 1929), p. xiii.

Professor Hansen.[3] Yet both Hansen and Moulton would certainly agree that after 1929 (if not before) excessive saving, or, as Hansen would put it in more precise Keynesian terms, an insufficient propensity to consume, was a major problem. Both, too, would feel that the redistribution of wealth furnished a promising method of attack on this problem. And, while Hansen would favor the use of other methods, in addition to redistribution, it is clear that the basic diagnoses from which both writers take their departure have a good deal in common.

Furthermore, and this will doubtless surprise many hasty readers of Moulton's book, Moulton is *not* an opponent of deficit financing *per se*. He says specifically that he favors the use of deficits in periods of "depression and readjustment."[4] "It is," he says, "only necessary that the debt be kept under easy control—that is, well within revenue possibilities."[5] Moulton nowhere defines what he means by "easy" control or "revenue" possibilities, but from other statements scattered through the book it would appear that he would agree that the following factors were among the most important to consider: "the level of the national income, the kind of taxation levied, and the wisdom of the public investment and public expenditures made."[6] Yet these are the words he himself uses in summarizing Hansen's views, and the reader is justified in asking what after all *is* the point of difference between Moulton and Hansen.

This theoretical point concerning which Moulton believes himself to differ from Hansen, Berle, and others, is summarized by Moulton as follows: "The new philosophy . . . holds that public finance is really only a matter of bookkeeping, that a rising debt has no adverse consequences, and that without a constantly increasing debt we cannot hope to have full employment and prosperity."[7] In other words, Moulton charges his opponents in general, and Hansen and Berle in particular, with the opinion that a public debt entails *no* burden and that a constantly rising debt is *always* essential to full employment.

It is much to Dr. Moulton's credit that, instead of firing a broadside at an unnamed group of writers, he has named names and picked specific economists for attack. However, his selection of opponents is a singularly unfortunate one and greatly diminishes the effectiveness

[3] H. G. Moulton, *et al.*, *The Distribution of Income and Economic Progress* (Washington, Brookings Inst., 1935). It should be stressed that Professor Hansen does not hold an underconsumptionist theory of the cycle such as Moulton's or Hobson's. Hansen's cycle theory is more similar to that of the over-investment school or to D. H. Robertson's.

[4] Moulton, *The New Philosophy*, p. 50.

[5] *Ibid.*, p. 52.

[6] *Ibid.*, p. 60.

[7] *Ibid.*, p. 3.

of the book. For, while Professor Hansen undoubtedly has frequently shown a very great enthusiasm concerning the advantages of public spending, it may nevertheless be stated without fear of successful contradiction that he has ***never*** written anything which, fairly interpreted, can be construed to mean that he adhered to *any* of the views attributed to him by Moulton in the passage just quoted,[8] and the same is probably true of Berle.[9] Indeed it would be difficult to find any outstanding economists who have espoused such views. Mr. Lerner comes nearest to it, but even he sees clearly the inflationary danger and the necessity, at times, for taxation if inflation is to be avoided.[10] While persons holding the extreme views Moulton attacks have undoubtedly

[8] After searching Professor Hansen's writings Moulton lists five quotations which "prove" that Hansen believes a public debt to entail *no* burden. Two of these are discussed later on in the text. The remaining three are: "costs and incomes are just opposite sides of the same shield"; "a public debt internally held . . . has none of the essential earmarks of a private debt"; "[an internal debt] is in fact so different from what we usually think of as debt . . . that it should scarcely be called a debt at all." *The New Philosophy*, p. 7. While considered hurriedly these do sound uncompromising, they none of them necessarily imply either that the debt has no burden or that it is always a good thing. Considered in their context the first is seen to be part of a discussion of the relation of costs and incomes, the second deals with the public debt as an instrument of national policy, and the third comes from a discussion of the well-recognized difference between public and private debt.

It is curious that despite Moulton's apparent diligence in ransacking Hansen's writings he should have missed so many quotations which could have made Hansen's position quite clear. For example, after detailing Professor Pedersen's views—which correspond somewhat closely to what Moulton thinks of as the "New Philosophy"—Hansen says, "While the above statement places the emphasis in the right place, it is nevertheless, unless properly qualified, an *over simplification*" (italics added). A. H. Hansen, *Fiscal Policy and Business Cycles* (New York, Norton, 1941), p. 144.

Again on page 174 of the same book we find the following statement which disposes of all doubt on the matter: "With respect to proportionality, a large debt in *relation* to national income may imply a disproportionate amount of wealth invested in government bonds. . . . The rentier class might accordingly become *too large*. . . . Even an *ideal* tax structure will *restrain* more or less the *inducement to invest*," etc. (Italics added.) It is unfortunate that Moulton does not appear to have read this passage, coming though it does at the end of a section headed "Limits to the Public Debt" which might have been expected to attract his attention. Had he done so he would have avoided most of the misconceptions in the *New Philosophy*. Numerous other quotations might be given to show that Hansen has been well aware of all the possible friction urged by Moulton.

[9] The most extreme statement made by Berle, with which the author is familiar, is his remark that the dangers of a breakdown of government credit have been "wholly overstressed." This certainly does not deny that they exist. See Hearings before the Temporary National Economic Committee, May 23, 1939. Further, how did Moulton miss the following remarks by Berle from the same source: "The use of the Federal credit by providing relief . . . is not a permanent solution. There is always the *danger* that the time may come when an economy so organized will reach the *end of its tether*" (italics added)? Moulton is quite unjustified and misleading in saying that "nowhere does Mr. Berle suggest that a balanced budget is necessary or that a continuous growth of the public debt might have adverse effects." Numerous quotations by Berle might be cited which would clearly rebut this. See *infra*, note 15.

[10] See A. P. Lerner, "Functional Finance," *Social Research*, Vol. X (Feb., 1943), p. 38.

been found in the economic fold, he is, as far as most of the profession are concerned, aiming at a straw man.

II

As far as the mechanics of presentation are concerned, Moulton has done a good job. The book is well organized. First the "New Philosophy" is detailed. Next comes a series of quotations by which Moulton tries to show that various writers adhere to this philosophy. The third chapter contains Moulton's version of how the new ideas have developed. Chapter 4, "Appraisal," is the core of the book. In it Moulton sets forth three grounds upon which he believes that the alleged adherents of the new philosophy base their case for a "constantly" expanding debt. These are (1) the mature economy, (2) a "chronic excess of money savings,"[11] (3) the idea that business enterprises are no longer dependent to any great extent upon investment markets for expansion capital.[12]

Each of these theses is elaborately criticized and dissected, though, oddly enough, Moulton admits (parenthetically) regarding all of them that they may possibly be correct. He reconciles his own "over-saving" views with his present criticisms by alleging that the New Deal has brought about a substantial redistribution of wealth sufficient, perhaps, to dispose of the problem of saving. This is a remarkable claim and careful scrutiny of the text will show that Moulton is by no means as sure of it as he at first sounds.

After disposing of the stagnation idea, he passes on to give brief mention of Berle's capital bank scheme, the idea that the public debt is a good thing because it supports the banks, and some of the problems of taxation.[13] The remainder of the chapter is taken up with a discussion, on fairly customary lines, of the burden of the debt and its limits. During this discussion Moulton makes a number of concessions

[11] Moulton presumably uses the adjective "money" in connection with savings to meet the Keynesian terminological objections regarding the "equality" of savings and investment. It should be noted that this does not meet the difficulty. To the rigid Keynesians, *all* money is "saved" or "hoarded" all the time, as Haberler points out.

[12] On this point Moulton says that when new investment is low replacement will naturally take a larger share. But T. C. Blaisdell, Jr., whose statements are quoted (*The New Philosophy*, p. 36) had merely stated that many corporations *did* use replacement and depreciation allowances for *expansion*. This fact is undoubted, and does not necessarily imply the confusion charged by Moulton. The doctrine that corporations are becoming more independent of the capital markets for expansion capital has many bases other than a comparison of gross investment with replacement.

[13] Moulton's criticism of Berle is based partly on the tacit assumption that all government enterprises which do not "earn" their costs—*i.e.*, which have to be subsidized from taxes—are worthless. This of course is an absurd exaggeration. As Berle points out, the same line of thought would mean that the Brooklyn Bridge was worthless because it was supported by taxes, while the George Washington Bridge, supported by tolls, must therefore be worth while. See further *infra*, note 24.

and alterations regarding his earlier statements. So much so, indeed, that one wonders whether it would not have been fairer to his own ideas, as well as those of his opponents, had these concessions been placed nearer the beginning of the book. In conclusion two brief chapters discuss debt and inflation and debt and post-war plans.

The style throughout is clear and lively and of a type likely to appeal to the popular reader.[14] On the whole, however, despite these expository excellences, most economists who are at all conversant with the facts will, I believe, put down Moulton's book with a sense of disappointment. We read today of paper cities erected near European capitals to mislead the bomber pilot and induce him to drop his bombs in the wrong place. Dr. Moulton is in much the position of one of these airmen who has devastated the false Berlin, or the false London. He has blown up the target at which he was aiming, it is true, but it is not the target he thought it was. Nevertheless, Moulton's book may well prove to have done a signal public service. If the New Philosophy described by him is definitely not that taught by Keynes and Hansen, it is nevertheless the philosophy many people, especially laymen, have *misunderstood* them to teach. It is difficult to rebut a number of vague misapprehensions precariously existing in the mind of numerous persons, but when these are gathered together in a widely circulated book it furnishes, as it were, a focal point for discussion, and, in consequence, gives an admirable opportunity for clarification. It becomes possible to define definitely wherein the writers attacked by Moulton do adhere to the views attributed to them and where they do not.

The basic weakness in Moulton's attack on the Keynes-Hansen school is that he fails to grasp the fundamental idea of their entire position: that the appropriateness of a particular economic measure can only be judged *relatively* to surrounding circumstances.[15] He insists on misconstruing Hansen's teaching that a public debt is *sometimes* a good thing into a doctrine that it is *always* a good thing. Relativity is completely lacking in his cosmos. Statements made with reference to one set of circumstances are torn from their context and quoted, without

[14] It should be emphasized, however, that Moulton's errors are not simply the usual inaccuracies inseparable from popular writing. They are frequently basic.

[15] Compare the following from Berle: "It comes hard to many of us to realize that economic measures are not laws of God, but are expedients, entirely proper *in one set of circumstances* and entirely fatal in another. Chairman Eccles of the Federal Reserve Board spent most of his time after 1933 in urging the freest possible expenditure of currency and credit, recognizing that deflation was the great enemy. Yet, in the August (1941) number of *Fortune*, he wrote one of the ablest arguments ever made for exactly the opposite process—'for hardboiled fiscal and credit policies.' He was right both times. Once the peace comes, he, and all of us will have to shift back at once to the main problem of seeing to it that there is adequate finance to construct markets up to the full limit of employment and production." A. A. Berle, Jr., "And What Shall We Do Tomorrow?" *Fortune*, Oct., 1941, p. 124.

explanation, or qualification, as if applicable to quite different situations. Moulton, indeed, in his desire to ascribe to his opponents a sweeping advocacy of extreme doctrine, is scarcely as just in his selection and arrangement of quotations as one would expect. For example, the most unqualified statement attributed to Hansen, "We shall come out of the war debt free. We shall have no external debt, only an internal debt," is taken from an interview published in the *Chicago Journal of Commerce* of June 27, 1942.[16] If, however, we turn to that *Journal* for August 31 of the same year we find the following:

"On June 27th, there appeared in the *Chicago Journal of Commerce* a lengthy interview with Dr. Hansen. . . . *Because Dr. Hansen felt that he was misquoted in some instances, thereby conveying a wrong impression,* the *Chicago Journal of Commerce* asked him to prepare an article specifically setting forth his ideas . . . which is presented herewith." (Italics added.) Yet, although Moulton quotes from the second article, he does not scruple to use quotations from the first interview. Surely this is not very magnanimous treatment.

To recount all the instances in this little book of the misleading use of quotations wrenched from their context would be a weary and invidious process. One further example, however, is worthy of mention. Moulton says: "That Dr. Hansen believes it is not only unnecessary to maintain a balanced budget but that a permanently expanding public debt is essential to prosperity . . . is indicated by the following: 'The attack on chronic unemployment by means of . . . a *continually rising public debt* is essentially a conservative proposal.' "[17]

The mistake here, of course, is the confusion between the *relative* and the *absolute* size of the debt. One may well advocate a continually rising debt, as Moulton admits, if, on the average, the national income is rising sufficiently. But this does *not* mean that one advocates a continually rising debt *relative* to the national income. It should further be noted that Hansen is here using the word "conservative" in the sense of the protection of property rights—not with reference to "sound" finance. More complete quotation would have made this clear.[18]

It is quite impossible in an article of the present length to discuss each and every point of controversy treated by Moulton. It will, therefore, be necessary to select only a few outstanding ones and to give even them but rather brief treatment. This will result in a somewhat incomplete picture, but, unless something of the sort is done, the dis-

[16] Moulton, *The New Philosophy*, p. 7.

[17] *Ibid.*, p. 8.

[18] What Hansen actually said was that a continually rising debt was "conservative . . . *in the respect* that it does not necessarily involve a redistribution of incomes." Moulton omitted the explanatory sentence. This is typical of many quotations throughout the book.

cussion would assume inordinate proportions. An attempt will be made, however, to mention in the notes certain of the points which are omitted in the text.

Let us begin by examining some of Moulton's views regarding what he calls the stagnation thesis. The writer, it should be said, has never been an unqualified adherent of the stagnation view for the reason given in his *Creation of Purchasing Power,* that "While at a particular point of time we can say with some confidence that the propensity to consume is too low with reference to the inducement to invest, to go further and say that this state of affairs will probably continue . . . may transcend the realm of economics and enter the realm of prophecy."[19] To explain more fully, I am somewhat inclined to disagree with Professor Hansen as to the probability of an insufficient inducement to invest, after the war, relative to our propensity to consume. The stagnation thesis, it seems to me, makes *ceteris paribus* assumptions relative to the international institutional milieu which may not prove valid. A reorganization of world trade which opens for investment the great areas of China, etc., may, it is at least reasonable to hope, absorb all our savings.

Moulton, however, misunderstands the thesis itself—at least in the form put forward by Professor Hansen. He never grasps that Hansen is not arguing for a high propensity to consume or a low one *for its own sake* but only with *reference* to the conditions obtaining at some one point of time. If the inducement to invest did increase, so as to ensure full employment, nobody would be better pleased than Hansen, and he would immediately recognize that a low propensity to consume was no longer a problem. There is then no analytical difference between Hansen and the writer. But Moulton, as said before, misses the *relativity* of Hansen's statements. He ridicules David A. Wells and other economists of the 1880's who put forward ideas similar to Hansen's, because *later on* prosperity returned.[20] He fails to realize that at the *time* they wrote Wells and Carroll Wright may have been quite justified in their beliefs. In this connection it should also be said, regarding the probability of an increase in the inducement to invest, that Moulton's point that it is *possible* for technological change to take the place of population growth (a point which, as Moulton admits, is well recognized by Hansen) is not the same thing as saying that it *will* take the place of population growth.[21] He confuses hypothesis with history—possibility with reality.

[19] See D. McC. Wright, *The Creation of Purchasing Power* (Cambridge, Harvard Univ. Press, 1942), p. 42.

[20] Moulton, *The New Philosophy,* p. 26, *et seq.*

[21] *Ibid.*, pp. 24-25.

As a means of rebutting the stagnation thesis, one of the oldest confusions in economics is employed, namely, the confusion of unsatisfied wants with *effective* demand. Moulton writes, "But it is equally true that the unfilled wants and desires of the existing population constitute potential markets. *If* (italics mine) the existing system is operated so as to expand consuming power in proportion to the increase in productive power," there is no reason for trouble.[22] Precisely. But *how?* Moulton implies later on that one of the best methods would be a redistribution of wealth. Yet wherein does this differ greatly from Hansen's desire to raise the propensity to consume?

It must be pointed out that responsible proponents of the "stagnation thesis" by no means believe that technical progress and increased total production are impossible. They only maintain that, with the existing propensity to consume, relative to investment outlets, increases are unlikely. In other words, a lower propensity to save (higher propensity to consume) would, they think, result in a more rapid growth of output. Moulton's quotation from Hansen that "there is no evidence that our economy is in any sense becoming decadent, inefficient, incapable of continued progress in productivity" by no means implies an abandonment of the "stagnation thesis."[23] What Hansen is saying is that *if* we find ways of effectively expressing unsatisfied wants in the market place, *then* we can continue to progress. This of course is Moulton's own view.

Probably Moulton would have realized more fully the extent of the agreement between Hansen and himself had he obtained a clearer idea of what is meant by the "propensity to consume." The propensity to consume is a *schedule*, similar in construction to the Marshallian demand curve, detailing the amounts which will be saved under given conditions at various levels of the national income. The schedule, furthermore, is, in Keynes's belief, likely to be so shaped that a larger proportion will be saved at higher than at lower levels of income. Had Moulton seen this more clearly, he would not have cited, in refutation of Hansen's statements, statistics which, if anything, substantiate them.

He points out that Department of Commerce figures show a decrease in the ratio of private savings to national income from about 12 per cent in 1929 to an average of roughly 7.5 per cent in 1936-39. From these data the conclusion is drawn that a far-reaching change has been brought about in our savings habits.[24] These figures, however, do not

[22] *Ibid.*, p. 24.

[23] *Ibid.*, pp. 29-30.

[24] *Ibid.*, p. 32. Moulton also criticizes Hansen, on page 33, for slurring over the rôle of taxes. He says that Hansen's statement that consumption in the late twenties equalled 88 per cent of the national income and that the same was true in the late thirties implies that "the remaining 12 per cent in each case represented funds available for private

rebut Hansen or necessarily indicate a change in the propensity to consume, in the schedule sense. The period 1936-39 was one of *lower* income levels relative to 1929. Therefore we should expect a smaller proportion saved than at higher levels. The error here is similar to that of confusing a change in demand, in the sense of the amount *actually* bought, with a change in the demand *curve*.

Enough has been said to show that the "stagnation thesis" as Hansen has put it forward, at any rate, is completely misstated by Moulton.[25] Probably the next most important confusion concerns the extraordinary conclusion drawn by him from Hansen's diagnosis of the "1937 episode." Hansen had said: "I think that [the] recession of '37 was to a very large extent due to [the] . . . decline in the net income creating expenditures of the government."[26] From this Moulton evolves the doctrine that Hansen thinks "*any* reduction in net govern-

investment." But, says Moulton, in one case taxes might have taken all the savings. In another they might not. This criticism is irrelevant. What Hansen is stressing is that *if* the 12 per cent saved were *hoarded* it would start a deflation, unless *offset* by deficit financing or forced onward by taxes. Even if taxes took all the savings it would not necessarily mean a reduction in investment in real terms. Government would be doing the investing. Of course if one believes that *all* government investments are waste then perhaps they should all be classed with consumption. But such an extreme view is absurd—though the writer has been at some pains to rebut extreme statements of the opposite order. See my *Creation of Purchasing Power*, p. 144. I am indebted to Dr. Richard A. Musgrave, and Dr. Marie Butler for much statistical and other material in connection with Moulton's criticisms.

[25] It is interesting to compare Moulton's summary of his appraisal of the stagnation thesis with what we have learned to far. The summary appears on page 42 of *The New Philosophy* and runs as follows: "(1) The mature economy thesis is not supported by the evidence and it has apparently now been abandoned by its leading exponent." Regarding this, we have seen that Moulton's statistics evince great confusion of thought, and that the quotation used to show "abandonment" of the thesis is an error.

"(2) The argument that we are confronted with a permanent excess of money savings is based upon a fallacious comparison—that of consumption with national income—which takes no account of increasing taxes and their effect upon savings." On the contrary, Moulton's figures do not show that taxation has greatly increased the propensity to consume—if at all. See also *supra* note 24.

"(3) The belief that business corporations have in recent years largely freed themselves from dependence on the general capital market grows out of a failure to differentiate between the replacement of old and the creation of new plants and equipment." This statement is almost wholly incorrect. Even assuming the alleged mistake to have been made, which is very doubtful, the doctrine stated has many other bases and its possible validity is admitted by Moulton.

"(4) The contention that the depression of 1937 was due to a reduction in the government's 'net contributions to purchasing power' belies the pump priming theory itself; and it overlooks the significant fact that *aggregate* purchasing power . . . was rapidly increasing up to the time the depression began." As will be shown shortly, Moulton in this criticism has forgotten the acceleration principle and confuses the effects of an absolute increase with its *rate* of change. The doctrine stated does not necessarily "belie" the pump priming theory.

[26] Moulton, *The New Philosophy*, p. 40.

ment outlays will only lead to disaster."[27] Moulton further remarks that "Hansen's analysis obviously overlooks the fact that it is *aggregate* national purchasing power, *private and public,* that counts. The statistics . . . show that aggregate purchasing power was rising rapidly during the period in question."[28]

What Moulton has forgotten here is the importance of the *rate* of change. Hansen, of course, had not overlooked aggregate purchasing power. If one reads his original treatment of the problem, it will be seen that it runs in terms of the "acceleration principle."[29] Hansen's feeling was that, *because* private investment had not risen sufficiently to offset the decline in government spending, the *rate* of growth of total demand was declining even though the absolute growth might still be great. The relation which obtains in some circumstances between the *rate* of growth of consumption and capital demand is an elementary principle of business cycle theory. The Keynesians certainly do not believe that a net decline in public spending *must* cause a collapse. If the total rate of investment (public and private) is sufficient, they feel (with Moulton) that no difficulty need ensue.

Another important issue which may be briefly mentioned is Moulton's treatment of the inflationary problem. He quite properly warns us of the danger of what the writer has called "pressure group" inflation.[30] A large part of the chapter on inflation, however, is taken up with a highly disingenuous attempt to confuse wartime controls with the peacetime inflation problem.[31] In time of peace, if large-scale hoarding is going on, net increases in the money supply do not necessitate rationing, price fixing, etc. Similarly, if the deficit merely accompanies and expresses increases in production, there need be no large-scale price increases. The tacit confusion of war and peace seems indefensible; for, since the problem turns largely on the "elasticity of supply," which is so different in the two circumstances, generalizations based on war experience are quite inappropriate elsewhere.

The final point to be discussed is the relation of deficit financing to the post-war reorganization of world trade. Moulton tries, I believe, to show that the reorganization of world trade on less mercantilistic lines and the return to the gold standard are impossible if large-scale

[27] *Loc. cit.*

[28] Moulton, *op. cit.*, p. 41.

[29] In making this point I do not necessarily imply that the acceleration principle *was* the chief cause of the 1937 crash. I am only showing that Moulton's objection to Hansen's analysis is not valid. For statistical material relating to the downturn, see S. H. Slichter, "The Downturn of 1937," *Rev. Econ. Stat.*, Vol. XX (Aug., 1938), p. 97.

[30] Moulton, *The New Philosophy*, pp. 77-78. *Cf.* my *Creation of Purchasing Power*, p. 226.

[31] Moulton, *The New Philosophy*, p. 86, *et seq.*

deficit financing be employed.[32] While I do not regard a return to the gold standard with enthusiasm, nevertheless I feel that it should be realized that deficit financing and the gold standard are *not* always incompatible. As J. E. Meade points out, all that is needed is that the major nations of the world expand more or less simultaneously in times of unemployment.[33] Furthermore, this roughly simultaneous expansion can occur, not only if there are elaborate interlocking treaties, but also if there is a general body of internationally recognized doctrine relating to compensatory public finance. If this is followed spontaneously by monetary authorities in all important countries, little maladjustment will ensue. The gold standard, it must be realized, worked, when it worked, because of a general acceptance of certain rules by the central banks of the world—not because of international coercion. This is, of course, a matter on which a great deal more could be said.

From what has been pointed out in this survey of a few of the issues of Moulton's book, it will be seen that we have found many confusions and misstatements, but few substantial differences between Moulton and those opponents whom he names.[34] The *analytical* points on which he believes himself to differ from Hansen and Berle are clearly a mistake. Is there then no *real* difference? To say as much would be going too far. It seems to me that there is a very real difference in emphasis and in indicated policy. While I hesitate to state Moulton's views too dogmatically, I believe that the real point of difference lies in whether we are to regard the balancing of the budget as a *desirable* aim or as the *chief* aim of economic policy.

Moulton tells us that a Brookings study is forthcoming concerning methods of balancing the budget after the war. This study should be interesting in view of his statement that it may be "essential" that the budget be *un*balanced in time of "readjustment." Perhaps, therefore, I do not interpret him fairly in what follows, and if so I offer my apologies in advance. Yet it seems to me that the post-war policy toward which Moulton's analysis *tends* is one of rigid economy aimed at balancing the budget as the *first* consideration, and with unemployment only a secondary matter. On the other hand, Professor Hansen, and

[32] Moulton's position is so difficult to define clearly from this book that I may be doing him an injustice in this statement of his views on foreign trade.

[33] See J. E. Meade, *An Introduction to Economic Analysis and Policy*, 2nd ed. (Oxford, Oxford Univ. Press, 1937), Pt. V, chap. 7. Of course if there is a deficient supply of gold to maintain a satisfactory price level other complications might ensue.

[34] The fact that it has been impossible, in view of limitations of time and space, to comment on *all* of Moulton's criticisms is not to be taken as necessarily admitting the validity of any of those not mentioned. Some selection had to be made and I took those which I thought most important. To point out each inaccuracy and misstatement in this book would require a review at least twice as long as the present one.

many others whom Moulton considers his opponents, would rank the aims of economic policy in the following order: (1) increasing the standard of living; (2) reducing unemployment to a minimum; (3) balancing the budget.[35] For the remainder of this article we will discuss the issue raised by this conflict of standards.

III

Surely, after all that has been written on the subject, we should now be able to bring to a close the long and weary controversy as to whether or not an internally held national debt entails a burden to society. In this regard the writer agrees with Dr. Moulton and Professor Hansen that the extreme position that a debt involves *no* burden has long been shown to be untenable.[36] On this point, indeed, Moulton is probably at his best in the book for, while he contributes nothing very new, most of what he has to say is substantially correct.

Let us run over the arguments which are advanced to maintain that no burden is involved. First of all there is the "one big family" argument. Taxes are mere transfer payments, the money is taken out of one pocket and put into another, etc. It is easy to show that this argument can not be pushed too far. The process of transfer involves administrative waste and friction. There is a vast problem concerning the distribution of wealth. *Unwise* taxes may hinder private investment and the growth of the national income. In this connection Mr. Lerner's ingenious attempt to minimize the possible deterrent effects of high progressive income taxes upon investment has failed to accomplish its purpose. As a matter of formal logic his demonstration must be conceded that the gains and losses from investment can be so balanced as to leave the investor indifferent between them. What he has overlooked, however, is that the investor may prefer to do *nothing* at all. The rewards of entrepreneurial endeavor may be smaller than the supply price asked by the entrepreneur.

A second line of argument suggests that the money supply can be increased to take care of taxes needed to service the debt. Mr. Lerner suggests that the interest charges on the national debt can be ten, twenty, or any number of times the national income. All that is needed is that enough money be put into circulation to enable the populace to buy the current output of goods after they have paid their taxes. In other words, on the *average,* each citizen could be getting his regular

[35] I list the criteria in the order given because it seems to me that too much emphasis on employment *alone,* as the chief aim, entails the risk of having this standard used to justify "make-work" and monopoly restrictions of all sorts.

[36] The summary which follows represents my own views and should not be interpreted as accurately presenting the views of either Hansen or Moulton.

earned income of, say, $100, and *in addition,* interest on government bonds of, say, $1,000. But this $1,000 would be taxed away, leaving him neither better nor worse than if there had been no debt, and free to use his regular income to buy his share of the current output of goods and services. A species of revolving fund is set up which is used over and over again to pay taxes and interest but never allowed to get into circulation.[37] Even assuming this process to work smoothly, and, as various economists, including Moulton, have pointed out, there are many possible difficulties, it still would greatly increase the power of the state over the economic well-being of each individual tax payer. Perfectly uniform income taxes for all citizens in any income range might leave all able to buy their share of the national product. But very slight variations in uniformity, for example through ingenious classifications, could serve nearly to wipe out individuals and industries distasteful to the governing body. If, on the *average,* taxes amount to but a small fraction of each man's total receipts, it requires a very noticeable and arbitrary amount of discrimination to destroy him, but if taxes amount to nine-tenths of his money receipts, very small "inadvertent" discriminations could do the job. After all, the power of the state to redistribute income is to some extent limited by the proportion of total money receipts passing through the hands of the tax collector and out again. The larger this proportion, the greater the opportunity for redistribution in *individual* cases, even though on the *average* enough still remains to buy the current output of goods.

Again it is said that interest charges may be avoided by issuing interest-free bonds or currency. The writer feels that *in time of secular stagnation* this suggestion has considerable merit.[38] But it does not—unless depression lasts forever or unless there is indefinite hoarding—completely avoid the necessity of taxation. That amount of currency or bonds not absorbed in handling an increased output at substantially unchanged price levels may have to be taxed away, *when* the boom is well started, in order to avoid inflation. Only if large-scale hoarding continues despite the boom can we avoid this result. Thus the issuance of interest-free bonds in depression *shifts* taxation to a time when we can bear it better but it does not necessarily avoid it.

Other possible frictions may be mentioned. If freely transferable, low-interest-bearing bonds are sold to the banks, the Treasury, in time of boom, may have to convert to a higher rate or else face a choice between inflation and the depreciation of government bonds with pos-

[37] Moulton misses the revolving fund idea. See *The New Philosophy*, p. 63. At the same time as I have pointed out elsewhere there are considerable difficulties involved in this process. See my *Creation of Purchasing Power*, p. 142, *et seq.*

[38] The *Creation of Purchasing Power*, p. 184, *et seq.*

sible danger to bank solvency. There is a third course of restricting severely the negotiability of the bonds and setting up a fund to bluff the market. But the possible expense, waste, and difficulties of timing are obvious.

Again, deficit financing may merely underwrite the inflationary demands of pressure groups and maintain monopoly positions which would otherwise be broken. The multiplier argument shows possible but not necessary results. Public works which compete directly with private business may destroy "confidence." The idea that debt is "but" the obverse of investment is open to the objection that, while production nearly always entails debt, debt does not always entail production.

Finally, there is the political argument. As I have indicated in an earlier issue of the *Review,* much of the opposition to deficit financing comes from those who feel that a political party may perpetuate itself in office by buying up the country through relief and public works. "Nobody shoots Santa Claus." This of course is a possible state of affairs.[39]

On the other hand, we will never clear up our thinking on this matter unless we separate those ill consequences which are *inherent* in the nature of the public debt from those which are not. None of the possible sources of friction which I have named, except the actual expense of tax collection, are necessarily *bound* to occur. There is only one line of attack upon deficit financing which postulates supposed evils absolutely unavoidable in the nature of the process itself; that approach is Professor Hayek's. Hayek seems to feel that *any* increase in the money supply will produce an undue lengthening of the "structure of production."[40] For the rest, all that we can say is that undoubtedly all things human are liable to a certain amount of mismanagement and that the different frictions just named are some of the *ways* in which the system may possibly be mismanaged. The burden is not something which can be mechanically determined but rather depends on the intelligence and forethought of the governing body. If we looked at the matter more impartially, we would spend more time discussing the administration of the deficit, and less time debating the possibility of a theoretical limit.

Someone has said that we could never convince anyone of any propo-

[39] See D. McC. Wright, "Mr. Ratchford on the Burden of a Domestic Debt: Comment," *Am. Econ. Rev.*, Vol. XXXIII (Mar., 1943), p. 115. At the same time it should be said, in the writer's opinion at least, that those who attribute the past success of the present administration to simple corruption of the electorate by means of public works are taking a very naïve point of view which considerably underestimates the sources of the strength of the New Deal. I submit that the New Deal has remained in office because, as Thurman Arnold puts it, President Roosevelt has come to symbolize, in the minds of the American people, all their most deeply felt (even if sometimes contradictory) aspirations. They *felt* he was trying to go the way they wanted to go. Without that feeling no amount of public works would, I submit, have either elected him or kept him in office.

[40] F. A. V. Hayek, *Prices and Production*, rev. ed. (London, Macmillan, 1935).

sition if we stated all the qualifications needed to make it true. Thus, in running over a long list of possible frictions, however accurate, one is likely to give a wholly false emphasis. Public policy should not be decided like some high school debates, by the number of "points" scored by one side or the other. Their relative importance must also be considered. It is, after all, a somewhat sterile task to run over endless hypothetical troubles. Let us, instead, consider the problems which deficit financing was intended to solve and the likelihood of unbearable friction. It is likelihood rather than possibility that is the real question.

IV

Two hundred years' experience with industrial capitalism has given a body of noncontroversial knowledge upon which all may draw. From that experience it is abundantly clear that an unregulated "progressive" society, for a variety of reasons, is subject to periodic deflationary crises. It may be that the importance of these crises has been somewhat overstressed in recent years. While the theoretical impossibility of predicting with confidence any bottom is well established, practically it seems likely that there will be an end "sooner or later."

Also the deflation is not *wholly* useless for the reasons given by Professor Schumpeter. But the "purgative" theory of the business cycle is after all of very limited validity. Even Schumpeter admits that the downswing is likely to go far beyond any possible point of usefulness.[41] Moreover, we must consider the social atmosphere in which the disturbance takes place. Specifically, when we are confronted after the war with a returning army, each member of which has probably come to believe that he has an inherent right not merely to a job, but a good job, are we under these circumstances to set up balancing the budget as the chief end of economic policy, letting the chips and the unemployed fall where they may? It is submitted that this is advice from bedlam and that Karl Marx himself could scarcely have thought up a better program for the destruction of capitalism.

Many conservative writers, it is true, would concede all that has been said. What worries them, however, is the fact that there is no guarantee that deficits and surpluses will cancel one another out, or that the national debt will not rise continually both in absolute *and* relative terms. Even more frightening is the case of prolonged secular stagnation in which deficits merely preserve the *status quo,* while the interest bill constantly rises relative to the national income. Must we not admit that a breaking point can some day be reached?

It seems to the writer that everyone would be a great deal better off

[41] J. A. Schumpeter, *Business Cycles* (New York, McGraw-Hill, 1939), pp. 150-55.

if this question were answered with an unqualified Yes. Certainly it is logically inescapable, if we admit the existence of any burden, no matter how small, that this burden *could* theoretically become too great. Logically, one must admit that piling an indefinite number of pebbles on the back of an elephant will eventually crush the beast. The reasoning, however, which impels me to suggest that this possibility should be admitted, once and for all, is that by doing so we remove from the scene a wholly false issue which serves only to confuse the real question involved. The real question is ***not,*** "Can a debt which is constantly increasing, relative to the national income, become too great?" The real question is, "*Need* the debt, in a well-managed program, increase continually in this manner?" And to answer this second question we must come to the heart of the matter, namely: *What* is the maladjustment which is holding up the rise of the national income?

Deficit financing, though in itself an important weapon, especially in satisfying liquidity preference, is, after all, primarily first aid in an economy suffering from some basic disequilibrium. Our most ultimate task is to see that this disequilibrium is corrected, and it is the diagnosis and cure of the basic trouble which should absorb most of our energies. Political reasons, I submit, may be responsible for our emphasis, instead, on the sterile issue of whether or not there is a burden and a limit to the debt, and our avoidance of the more fundamental problems. It is often easier for the "ins," whether they be conservative or liberal, to say that there is *no* burden and thus distract attention from any mistakes in administration which may be contributing to the economic deadlock.[42] On the other hand, in the present state of public education, it is frequently easier for the "outs" to exploit the average man's fear of debt rather than launch a more reasoned campaign on the real issues involved.

For example, in England in the early thirties the real weakness of Great Britain lay in the fact that exchange rates and the internal price level were out of line with the world situation. Yet the conservatives obtained a *de facto* ouster of the Macdonald government not on this issue (concerning which they were themselves confused) but by playing up the fear of debt. Since, however, the fear of debt is as undiscriminating as it is potent, as available for bad as for good, Keynesian economists have not, I believe, often gone too far astray in trying to give the public a more moderate view. That is all that Professor Hansen, for instance, has been trying to do.

Admitting, however, that deficit financing is largely first aid, are we

[42] It should be remembered that the "liberals" have no monopoly on deficit financing. In this regard it seems to me that Moulton's adjective "new" is somewhat misleading. The idea that a national debt may, in itself, sometimes be a good thing is at least as old as Macaulay and Alexander Hamilton.

therefore to discard it? Shall we tear off the tourniquet and let the patient bleed to death while awaiting the doctor who is to sew up the wound? Moulton does not go so far and neither, I submit, should any other responsible economist. Further, the mere possibility of mismanagement is not, in itself, enough to discourage us from stepping in to prevent a general explosion.

It is submitted that most thoughtful economists would recognize that more deadly, if possible, to capitalism and the rise of the national income than even continued unemployment is the "security" spirit, the urge toward the "security economy"—that happy state in which we will have logrolled ourselves into industrial stagnation. I feel that the most serious charge against deficit financing is that it may be used to underwrite and perpetuate such a system. But in order to understand the problem we must consider how this job-conscious "security" spirit came to be so strong in our society. The answer, I think, lies in the total inability of pure *laissez-faire* economics to cope with deflation.

You cannot possibly convince a man that he should let his job go, in the interest of increased national production, if at the same time production is obviously decreasing. Unless you can ensure a tolerable measure of *aggregate* stability by putting a definite limit to the downswing, people will seek to insure *individual* stability by monopolistic agreement. If one industry is outmoded and should be junked, there must be a reasonable possibility that the men employed in it can obtain jobs elsewhere before you can persuade them to acquiesce in the scrapping process. It is a tacit, but overwhelmingly important, assumption of the classical demonstration of equilibrium that, on the average, the death rate of old industries should be about equal to the birth rate of new ones. "When losses are made in one industry," says the classical economist, "men will move into other, more profitable ones." Very good. But, in the short period, "other more profitable ones" are, we know very well, not always forthcoming.

Granted this fact, it is clearly impossible, without deficit financing, to *guarantee* tolerable aggregate stability. Price flexibility, as a remedy for the cycle, seems a broken reed. Even Pigou admits that wage reductions will do no good "during the actual progress of a violent collapse."[43] But the actual progress of a violent collapse is just what we want to prevent. On the other hand, *with* deficit financing available, we will be able to show that monopoly is not the only road to aggregate security.[44] Thus, to the writer, an effective campaign for such increases in price flexibility and competition as are possible today must presup-

[43] A. C. Pigou, "Real and Money Wage Rates in Relation to Unemployment." *Econ. Jour.*, Vol. XLVII (Sept., 1937), p. 405.

[44] Of course in a dynamic system with technical change no economic theory can make everybody equally prosperous at the *same* time.

pose the existence, when needed, of deficit financing. Otherwise, it is foredoomed to failure.

Our problem, let me again repeat, is not: Can deficits some day roll up an intolerable debt? Our problem is: What are the maladjustments which are making continued deficits necessary? Is there too much capitalistic, or union sabotage? Are the taxes too heavy or too light, or are they poorly distributed and levied? What about international trade? Should there be a greater or a less concentrated distribution of wealth? These are some of the questions which we should be discussing.

Dr. Moulton might have written a book which turned attention to the understanding of these problems. He might have helped constructively those people, like Hansen, who are wrestling with them. Instead, it is likely that his book will be used among laymen to fortify that philosophy of ultra budget balancing of which he himself seems at times to disapprove. With Moulton's great prestige, the large funds at his disposal, his talent for exposition, his conservative but by no means illiberal point of view, he was in a peculiarly favorably position to winnow the wheat from the chaff and to substitute agreement for controversy. Instead he has lost a great opportunity.

MONOPOLIZATION AND THE DECLINE OF INVESTMENT OPPORTUNITY

By GEORGE H. HILDEBRAND, JR.*

Professor Schumpeter's new work[1] presents us with a highly sophisticated interpretation of entrepreneur capitalism, one that is filled with challenges for those who believe that monopolistic practices constitute a long-run sabotage of the functioning of the system, or that we have entered a new period of permanently depressed rates of private capital formation. It is rather remarkable, when viewed in retrospect, that the distinguished contributions (extending over more than thirty years) of an economist who has dared to tackle problems as significant as can be found in economics should have received such relatively limited attention. Schumpeter's work constitutes, as a whole, a bold attempt to integrate economic theory with economic history in a synthesis in terms of which the mechanics of the capitalistic process may be outlined with reference to historical time. His theoretical position, of course, raises many difficulties, but there can be no question of its fundamental importance in throwing a clearer light upon the operations of an enterprise economy, and in setting up numerous objectives for future empirical research.

The present discussion will be concerned with two general problems: (1) an examination of Professor Schumpeter's thesis that monopolistic practices, in general, have helped to expand output in the long run, rather than to contract it; and (2) an evaluation of his discussion of the possibility of declining investment opportunity.

It is Professor Schumpeter's contention that price stabilization, the "administration of existing market structures" in favor of the insiders, patents, stabilization tactics, and similar protective devices for organizing the market and checking entry provide the necessary degree of risk insurance to induce innovational investments which would not

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[1] My comments are based mainly, but not exclusively, upon Schumpeter's most recent book, *Capitalism, Socialism, and Democracy* (New York, Harper, 1942), and are directed primarily to Part II, entitled "Can Capitalism Survive?" I should like to indicate my indebtedness to Professor George W. Stocking of the University of Texas for many discussions concerning Schumpeter's work.

otherwise be made. He also holds that most restrictive strategy is primarily of short-run importance, that, given time, the strongest positions can be broken by competition. The theory of imperfect competition, sound as it may be as partial and static short-run analysis, actually falsifies what is essentially a process in historical time. It thereby results in obscuring with the veil of *a priori* theory the fact of a steadily rising trend of real output from 1875 to 1929. The gauntlet is then thrown down to the "sabotage school" with the following challenge: Given this steadily rising output trend, how is it to be reconciled with the thesis that pecuniary motivations call for a strategic withdrawal of efficiency? Either business motivations had something to do with the trend, or their negative impact was more than offset by some other factor or group of factors. But what are these alternative influences?

The point is a neat one, and Schumpeter believes it can be buttressed even further by a more detailed examination of the historical record, specifically by a consideration of the rôle of entrepreneurship in the development of the railroad, iron and steel, automobile, electrical and chemical industries. In all of these cases, it was the leadership of capitalist enterprise which turned the findings of the sciences to practical application. For Schumpeter the conclusion is obvious: Big business has given us the very achievements which the case from the static theory of imperfect competition denies. The only question at issue, therefore, is one of fact: Are the achievements of capitalist enterprise in the past directly imputable to the presence of monopolistic protections, or rather to highly competitive conditions of entry and of sale? Schumpeter assumes the former to be the case throughout his argument, and it is this assumption which calls for careful examination.

The problem may be broken up for analysis under the following heads: (1) what is the relation between monopolistic tactics to reduce risks and the behavior of the major (Juglar) business cycle; (2) what is the relation between these tactics and the process of long-run industrial growth, in the past and for the present; and (3) what becomes of the function of entrepreneurship in the large corporate enterprise. We shall consider these questions in turn.

There are three periods in American business history in which the movement for the "stabilization of competition" was most active. They are 1897 to 1903, 1923 to 1929, and 1933 to 1935. In the first two instances, the movement originated from within the business community itself. In the last period, this again was the case, but the movement was unique in that it enjoyed the direct support of the federal government. Moreover, the field of such activity was expanded between 1933-35 by the inclusion of collusive agreements in the hitherto relatively competitive agricultural sphere (the A.A.A. agreements), and by the extension,

to new areas of organization, of a trade unionism possessing to some extent "business" (restrictive) objectives. In each historical instance, stabilization in the business sphere was directed mainly to industries which were already well advanced toward maturity, and did not function as the starting point in the growth of a new industry. This suggests that pecuniary benefits promised by squeezing the market were an important motive in the process. The most that need be conceded to Schumpeter at this point is the possibility that "rationalizations" of the sort represented by the organization of the United States Steel Corporation *may* have offered an opportunity for technological advance—an opportunity, however, which, in this instance, apparently was not effectively utilized.[2]

In the historical instances mentioned above, the movement took its start from a background of falling prices, cutthroat tactics, and "excess" capacity, while its progress occurred under conditions of cyclical expansion. Two theoretical questions present themselves at this juncture: what impacts may be expected to occur upon saving and investment as a result of the introduction of monopolization tactics, and what might be the relation between the initiation of such tactics and the development of a Juglar recovery. We shall set out from the assumptions that the objectives of stabilization tactics are, on the one hand, to put a floor under or to raise prices, and on the other, to check the entry of new competition into the industry.

Investment may be directed to the creation of new products, new methods of production, and the exploitation of new resources; or it may be directed to the expansion of existing plant and equipment and inventories. Now with monopolization of an industry, two of the ruling aims are to prevent the entry of new competitors and to conserve the value of existing assets by holding down capacity and staving off the application of technical change. These objectives, if attained, involve a reduction, rather than an expansion of existing investment opportunities,[3] and the short-run effect is to reduce the rate of new investment. The long-run effect is also likely to be depressive, at least in the sense that while innovations will still be made under monopoloid conditions, their application will be delayed, and in some cases even short circuited, while investment will not be carried to the point of economic optimum for fear of spoiling the market (destroying monopoly revenues).

[2] See M. W. Watkins, ***Industrial Combinations and Public Policy*** (New York, 1927), chap. vii.

[3] Moses Abramovitz concludes in his appraisal of the savings and investment problem that there is strong reason in support of "... the notion that the destruction of monopoly controls will make for a higher rate of new investment, both immediately and in the long run." (M. Abramovitz, "Savings and Investment: Profits vs. Prosperity?" *Am. Econ. Rev.*, Vol. XXXII, No. 2 [June 1942], suppl. p. 85.)

On the other hand, profits are a primary source of savings, one which works both through the enterprise and through dividend disbursements which add to the inequality of income. If increased monopolization succeeds in producing a monopoly revenue at the expense of consumption, and this is certainly a motive for seeking monopoly advantages, the result is a further concentration of income and increased saving. Moreover, if monopolization results in a more cautious investment policy with respect to postponable replacements which are financed through costs, the problem of savings offsets will be further complicated at the level of gross investment. In terms of both investment and saving, therefore, we have good reason to conclude that the impact of a successful protective strategy will be depressive on income and output. Putting aside the question of the long-wave (Kondratieff) effects for the moment, we have grounds for the gravest doubts that monopolization would produce or intensify a Juglar revival. The expansion of investment was not, for instance, Mr. Morgan's expressed motive for rationalizing the railroad industry in 1889, nor for his setting up of the U. S. Steel combine in 1901. Quite the contrary. Nor was investment expansion the intention of the provisions in the N.R.A. codes which included restrictions on plant expansion.

What about the relation of price stabilization to the level of activity? Professor Schumpeter suggests that it provides short-run protection from risk, and so induces investments which might not otherwise be made. He also contends that the depressive effects of rigid prices have been overemphasized, and that prices rarely remain rigid for more than a short-run period. But while he justifies short-run rigidity in the industrial sphere, he finds the parity price policy in agriculture full of danger. The latter conclusion may readily be granted, but why should price fixing (which usually means price raising) be any more commendable in the case of manufacturing industry? Only if it actually does induce investment in great volume. But is price stabilization a primary factor affecting investment decisions favorably? It requires some hardihood to believe that the price policies implicit in N.I.R.A. aided recovery when their immediate impact was depressive upon consumption. Professor Schumpeter, however, believes this was the case. Or take the case of the railroads, which enjoyed a high degree of stability in their freight and passenger rates throughout the thirties. The result was certainly some avoidable excess capacity, even given the primary importance of low levels of national output. Nor did this stability lead to that degree of modernization in plant and equipment in the railway field which was clearly possible and called for. Implications of equal importance may be found in the railway equipment field, and in other industries.

Theoretically, there appear to be but two possibilities which would favor Schumpeter's case concerning price effects. A partial stabilization in a period of falling prices may have some beneficial psychological results, if entrepreneurs do not wait in anticipation of further declines. Moreover, if the demand for investment goods is inelastic during low levels of total activity, and there is some reason to expect this, a fall in the prices of such goods might actually decrease investment expenditure, and so add to "excess" money savings and force income to fall further. On the other hand, however, if money wages were to fall proportionately more than other prices during a downswing, the consumption function would probably shift downward in money terms, aggravating the savings problem.[4] Clearly, the implications of price stabilization, as they affect the level of money income and of total activity, are complex, but we are at least warranted in making the inference that the case for Professor Schumpeter is far from conclusive.

Our second broad problem has to do with the relation between monopolization tactics and the process of long-run industrial growth. We start with Persons' indices of output.[5] On an 1875 base, the upward trend in total output works out to be around 3.7 per cent per annum compounded to 1930, while the index for leading manufacturing industries averages higher than 4.3 per cent over the same period. (A deduction of 1.7 per cent per annum from the first index is made by Schumpeter to allow for durable producers' goods, leaving a net overall rate of 2.0 per cent per annum.) These are the global facts which lead Schumpeter to the conclusion that monopoly capitalism justifies itself. Is this conclusion warranted? I should like to suggest a negative answer. The argument seems to me to involve a dangerous confusion between the achievements of capitalist enterprise *as a whole,* and those of capitalist enterprise ***operating under monopolistic conditions.*** We may state the counter-argument in the form of a question: Did the index of output rise steadily primarily because of the behavior of well-entrenched large-scale firms, or did it do so because there was still enough virility left in the competitive process to permit innovations and the breaking into established fields to go on? Clearly, the motivations of those on the inside were not to encourage this penetration, as we have already seen, and yet it is the penetration which forms the core of Schumpeter's whole analysis of the dynamics of the capitalist process.

Let us go into this matter more fully. Schumpeter and Spiethoff, among others, have associated the persistent, long-run surges of capital formation, and the resultant upward trend in output, with the building

[4] This last, and the preceding, effect were suggested to me in discussions with Dr. Abram Bergson.

[5] W. M. Persons, *Forecasting Business Cycles* (New York, 1931), frontispiece.

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up of great industries which "fan out" from important innovations. This is a long-term, rather than a cyclical, phenomenon, and when present, it provides a sustaining force which carries the system through its Juglars to ever higher levels of performance. It is fundamental to the growth of industrialism itself, and the historical data provide a vigorous testimonial to the virility of the enterprise system in this connection. But this merely serves to frame the question: Was that virility due to the protective devices of modern security capitalism, or did it arise from the effectiveness of a relatively freer competition in the past? The question cannot be answered *a priori,* or from blanket statistical indices. The solution can only be obtained from an historical examination of the particular industries themselves, directed toward ascertaining how these industries came to be, how they grew, and what they did upon reaching a level of maturity. The iron and steel and the automobile industry, for instance, all began with a multiplicity of concerns, and only when they reached a highly advanced state of development did there emerge a drive toward stabilization and concentration, and that drive arose from financial quarters interested in the rate of return. Admittedly, the matter calls for intensive exploration, but until we have the answer there are excellent grounds for doubting Professor Schumpeter's thesis.

Our last question under the rubric of monopoloid tactics has to do with the status of the entrepreneurship function in the large corporate enterprise. This function concerns the making of fundamental decisions —decisions which have to do with the initiation of change (new data), the resistance to change, and the adaptation to change, by the private enterprise. In this sense, entrepreneurship is a dynamic, rather than a routine, function. In the 19th century, it was supplied usually by a single person, Veblen's "captain of industry." He was a man closely connected with the actual industrial operations of the concern, and one who rose with it. With the growth of the large-scale administrative structure of the modern corporation, however, the locus of entrepreneurship changes. On the one hand, there emerges a complicated bureaucratic hierarchy whose only means of functioning is through formalized rules and discipline, and whose operations are thus routinized and circular in nature. Yet the problems of dynamic economic change remain. Firms must still win new positions, hold old ones, meet and eliminate rivals. It is thus clear that the function of entrepreneurship is still called for, though it may be filled by more than one person. This raises another question regarding Schumpeter's argument: How has the growth of the big corporate concern affected the functioning of entrepreneurship? The problem is an empirical one and difficult to attack, but it is fundamental. How is the personnel which performs the entrepreneurship function selected, and what factors are actually involved

in the making of investment decisions in such enterprises? This carries us over to "sociological" problems, a field in which the late Professor Taussig made notable pioneering efforts. The fact, however, that the problems are sociological does not mean that the economist can afford to neglect them. We need to know more about the social structure which governs the selection of managerial personnel, and to what extent talent is actually discovered and encouraged. We also need to know more about the way in which investment policies are determined in practice.

It is not enough, therefore, to allege that big business has made distinct achievements, at least until 1929. The real questions are whether this was the best *conceivable* level of attainment, and whether we may continue to look with confidence in the future to the same degree of performance. Does the appearance of the giant concern, with a large agglomeration of assets and a complicated administrative structure, restrict the enterprise function? Is its dominant motive safety, security, resistance, and reluctant adaptation? Has the achievement to 1929 been attained *because of* bigness, or *in spite of* it? Was the persistence of effective competitive conditions basic to the rising output trend? To what extent are firms large for commercial or market reasons; to what extent for industrial and technological ones? Just how does security of a market position lead a firm to take risks in investment policy?[6] What are the historical facts in this regard? Are the relatively higher rates of return in monopoloid industries "bait to lure timid capital" to the field, as Schumpeter suggests, or is monopoly primarily a device for the exclusion of competing capital, for the restriction of capacity, and for the protection of the market position?

These are unanswered questions. It is by no means clear, however, that the gathering shift to corporate and monopoloid capitalism since 1870 justifies a belief in the necessity for a continued over-all growth rate of 3.7 per cent per annum compounded for the future. There is more than a little reason to believe that qualitative changes now going on in our economic structure are making highly dubious any extrapolation based upon past experience.[7] Yet this is precisely the difficulty

[6] The theoretical core of Schumpeter's argument with regard to investment and the large-scale enterprise seems to be that modern technology decrees that innovations now consist predominantly of relatively large lumps of indivisible capital. The resulting magnification of risk thus calls for the protective hedging tactics which competitive theory would condemn as monopolistic. The acceptance of the argument, of course, commits one to the thesis that the economy is becoming increasingly monopolistic with the progress of technology and the formation of capital—a contention for which there are strong grounds.

[7] Professor Schumpeter is obliged to explain the unusually low level of activity in the thirties in terms of a Juglar downswing superimposed upon the downgrade of a Kondratieff long wave. But not only does the validity of the long-wave hypothesis still have to be established; there are good grounds for believing the environment has changed, as Professor Schumpeter himself freely admits, though he confines his concession to changes in the social and political sphere, rather than the economic.

with Schumpeter's argument: it projects the past into the future in a timeless fashion which implicitly neglects or minimizes a changing historical situation. Thus Professor Schumpeter must contend that *economically* the thirties are but a special case, and that they do not reflect any permanent changes in the capitalistic framework other than the appearance of an unfavorable climate of political opinion. *Per contra*, it may well be that the motives of security capitalism have become greatly intensified in recent years, as an accompaniment of the shift to the big concern, and that they have grown now so dominant that even in the presence of permissive conditions for expansion, they constitute a continued bar to a renewal of the upward trend in output. The hesitations of corporate enterprise in the presence of a virtually insatiable wartime demand and of practically riskless conditions of investment are a case in point. At the very least, we need to know far more about the actual behavior of giant concerns, particularly with regard to their policy making, before we can impute all the achievements to bigness *per se*.

The problems which have been raised above are not to be taken as indicative of an uncritical hostility to the giant concern, or of a naïve faith in atomistic competition. Nor are the morals of the issue relevant. What is at issue is the thesis that *since* monopolization accompanied the growth in output, *therefore* it was the cause. One must certainly recognize the productivity of the large enterprise in many instances. The problems raised suggest only that the facts must be probed much more deeply before it can be concluded that monopolization *per se* is a stimulator of growth.

The second broad issue with which we are concerned has to do with Professor Schumpeter's treatment of the supposed decline of investment opportunity. The dating of the break in trend is still a matter of issue, although some would place it as early as the eve of the First World War. The stability of prices and the well-established margin of idle resources in the twenties suggest a lagging rate of expansion, at least in the sphere of capital formation, which is the dynamic element in a capitalist economy. However, it was the continuously depressed conditions of the thirties, with their low average rate of utilization of available resources and the weak recovery of 1935-37, which provided the greatest impetus for the doctrine that a fundamental change has come over the conditions of investment opportunity for private enterprise. If we ignore the position of those who simply deny that the problem exists because Say's law in some form obviates such a possibility, there appear to be two explanations for the decline. First, there is the thesis that a qualitative change has come over the structure of investment opportunities. This is the position taken by Professor Hansen,

and it rests heavily upon the declining rate of population increase and upon the disappearance of extensive territorial growth as stimuli to private investment. Then there is a second view, of which Professor Schumpeter is a leading exponent. It is that the changed political and social environment of enterprise capitalism acts to obstruct the process of private investment and, by cutting down its volume, leads to stagnant conditions. This position presumes that a fourth Kondratieff long wave would appear, if these exogenous social forces had not supervened.

Professor Schumpeter's view, much in the manner of the Hegelian dialectic, makes the very success of capitalism, which involves a high degree of insecurity because the process rests upon autonomous and unpredicted change, generate its opposite, the demand for security; which resolves itself in the death of the function of entrepreneurship. The social service state of modern times thus turns out to be the mortal enemy of the capitalistic system. It encourages anti-capitalistic groups and tendencies, obstructs innovations, and cuts down investment. It gives rise to an atmosphere of hostility and it increases the sense of risk. This leads to depressed conditions, and produces the pressure for more state control and participation, and so on in mutually compounding effects.

Schumpeter's position inverts the usual argument, because it makes the unfavorable environment the cause of the running down of the investment process, whereas the customary interpretation is that interventionism is a surface phenomenon which only reflects deeper underlying economic changes. When the sequence is reversed, as in Schumpeter's case, the position taken amounts to assuming that capitalistic enterprise is incompatible with interventionism, that it is a form of economic society that is only compatible with *laissez-faire* political conditions. Yet the "Neo-Mercantilist" Kondratieff, in Professor Schumpeter's own study of the business cycle, was able to get under way in Europe by 1898 in the presence of a steady accretion of social legislation and laborism after 1870. Certainly the comparable changes in the United States have been less severe, though they have come much later. What special features in the American situation make it impossible for these changes to be absorbed?

How is it possible for Professor Schumpeter to reverse matters and so blame the state, rather than the economic system, for what the followers of Professor Hansen would term secular stagnation? Essentially, his answer is that the grounds for the asserted decline of investment opportunity are weak, while there is no *a priori* basis for expecting the system to run down of its own accord. The vanishing of investment opportunities is ascribed, in his examination of the problem, to the

saturation of consumer wants, to the decline in the population growth rate, to the filling up of the geographical frontier, and to the emptying of the reservoir of potential innovations. All but the last factor are regarded by Professor Schumpeter either as having no explanatory value, or as capable of being offset by the limitless possibilities for technological change. Those who question the enormous potential involved in this last avenue of investment are then chided for a sheer want of imagination. And since, in his opinion, the possibilities are unlimited, as history shows, what happens to the case of the stagnationists? It simply disappears, as it also does under Say's law of markets.

It may be agreed that there is no sign of an impending saturation of consumer wants, if the parametric character of purchasing power distribution is neglected. But to make this assumption is to eliminate the problem of effective consumption demand. Yet ours is an economy which experiences a high savings flow at high levels of income, and for that income level to be maintained, these savings must either find their way into investment or be offset by equivalent income-generating expenditures in some form. Otherwise, the savings have to be passed back to low income groups in some way if their consumption desires are to become effective. Lending such savings to consumers is no permanent solution, and the result is that the argument from consumption demand fails to solve the savings problem.

Professor Schumpeter's argument, however, simply contends that the technological frontier provides an adequate outlet for any "excess" savings in the long run, so that the problem of converting to a more dominantly consumption economy does not have to be faced. He contends that the changed status of the "bourgeois family" will curtail the flow of personal saving, and that future innovations would be sufficiently adequate to absorb any flow of saving then likely to eventuate. The evidence, however, indicates that the savings stream is quite rigid and institutionalized, because of the pattern of distribution and the resultant propensity to save, and because of the structure of corporate savings. Even if the promised flood of innovations were to work as a long-run stimulator of capital formation, there would still be a short-run problem of excess savings. In addition, there is certainly the possibility that the long-run rate of capital formation will, as was the case to some extent in the twenties and most markedly in the thirties, continue to be too low to permit the economy to operate at the high levels proved possible by the war. Moreover, it has been remarked that the stimulus of technological change for capital formation in the past was combined with stimuli of equal or greater intensity arising from the requirements of territorial and population growth, a fusion of favor-

able circumstances for investment that is not likely to reappear.[8] Thus there is considerable warrant for doubting whether intensive technological development can carry alone the load of adequate savings absorption. To do so, a prodigious quantity of capital-using innovations would certainly be called for.[9] It would appear, therefore, that even if the record of technological change and of the growth in net available output of the past, upon which Professor Schumpeter relies so heavily, were sustained for the future, there would remain ample ground for concern about the ability of our economy to sustain a satisfactory level of resource utilization. Moreover, this concern can be founded upon purely endogenous factors operating within the system, without recourse to the argument from a changed social and political environment for enterprise capitalism. The thesis of a changing structure of investment opportunities for private capital is not successfully refuted; and more, there remains some reason for continuing to ascribe the phenomena in the political sphere to underlying changes arising in the economic domain. Nevertheless, Professor Schumpeter has written a provocative book, rich in style and knowledge, and certain to prevent the stagnation controversy from becoming as sterile as Ricardianism in its later phases.

[8] A. R. Sweezy, "The Government's Responsibility for Full Employment," *Am. Econ. Rev.*, Vol. XXXIII, No. 1 (Mar., 1943), suppl., p. 21.

[9] A word is necessary concerning the problem of the population growth rate. As Schumpeter says, the falling rate will affect the pattern of wants, and when it is combined with technical change, it promises an increased output per head, though this, it may be added, may well be dissipated in unemployment. Moreover, a sustained rapid growth rate, such as that which prevailed throughout the 19th century, induces large blocks of investment far ahead of the market, as in the case of the railroads, and it calls for considerable public construction. It also holds down personal saving in favor of consumption. Finally, if the proportion of immigrants in the annual increments is large, a rapid growth rate depresses money wages.

COMMUNICATIONS

Retirement of Internally Held Debt

What was for years a favorite parlor trick of economists has lately become the center of a good deal of controversy. This is the demonstration of the idea that an internally held debt represents no net obligation so far as the country as a whole is concerned. The conclusion has been recognized for years; is a logical deduction from the bookkeeping truism that a debt is also, when viewed from the side of those to whom the debt is owed, a credit; and is obviously correct when both debtors and creditors are regarded collectively. The use to which this rather musty observation has been put in support of deficit financing as part of a fiscal program to promote full employment is chiefly responsible for having raised it into an issue of the day.

Both sides to the controversy have missed, it seems to me, a very essential point, with the result that advocates have been led into statements too sweeping to stand analysis, while opponents have failed to make use of an important basis of criticism. A fair sample of the former is the statement by Hansen and Greer that "when . . . principal payments are made . . . the money is merely shifted about within the economic system."[1] An example of the latter is the extended attack recently made by Dr. Moulton on this and other ideas expressed by Professor Hansen.[2]

The contention that a repayment of the principal of government debt is *merely* a transfer within the economic system does not apply with respect to debt held by commercial banks. Since approximately 40 per cent of the national debt is now (at the middle of 1943) held by banks, for the most part nominally commercial in character, the claim is not only invalid as a generalization but becomes greatly narrowed as to its application.

When $1,000 is collected from taxpayers and transferred to an individual in payment for a government bond, the amount of circulating medium is not changed: deposits of taxpayers decline, but deposits of the bondholder rise by an equal amount. When, on the other hand, $1,000 is collected from taxpayers and used to pay off a bond held within the commercial banking system, the operation involves considerably more than the transfer of demand deposits. Circulating medium is not merely shifted about; it is destroyed. Taxpayers are burdened without corresponding gain to others. The volume of purchasing power is not maintained at the same level but is diminished. Banks, far from benefiting as a consequence of the payment they receive,

[1] *Fortune*, Nov., 1942, p. 169.

[2] In his booklet, ***The New Philosophy of Public Debt*** (Washington, Brookings Inst., 1943). The articles recently published on the subject in this *Review* and other economic periodicals have been concerned for the most part with the payment of interest on debt rather than with repayment of principal.

are in a worse position since they experience a decrease in earning assets.[8]

The loss of earning assets is not necessarily compensated by the fact that the decline in deposits increases the amount of free reserves and thereby allows an expansion of deposits and the acquisition of other earning assets. The destruction of demand deposits as a consequence of the repayment of debt is the precise counterpart of the creation of deposits through Treasury borrowing from commercial banks. The latter has become the subject of current discussion in connection with the threat of inflation and calls for no recapitulation. The significance of the freeing of a certain amount of reserves, however, requires further consideration. If lack of reserves were actively restricting the expansion of deposits so that the freeing of reserves was immediately followed by the acquisition of private credit by banks, the net result would be more or less similar to that assumed in the conventional presentation: instead of a reduction in the total of debt there would have been a shift from government to private debt, but the volume of purchasing power would have been maintained at its former level.

In recent years, however, the amount of reserves has not been an active influence in restricting the expansion of bank deposits and there is little reason, on balance, to anticipate a material change in this regard after the war. Consequently, it is scarcely to be expected that an expansion of private borrowing from banks will prevent a net burden from emerging if the national debt is reduced. Should private borrowing from banks take place which would have occurred even without the release of reserves that resulted from the reduction of federal debt, the latter must still be regarded as having caused a burden on the community without itself producing any offsetting gain in the sense of a transfer of purchasing power to someone else. It may be more realistic to anticipate that the repayment of certain government securities may be made possible, and the burden thereby offset, by new government borrowing at banks. But this obviously would not constitute a net repayment of federal debt and therefore the consideration is not germane to the argument.

The fact that taxpayers undergo a monetary loss through repayment of principal without any other group of the population experiencing a monetary gain is simply the obverse, as was implied above, of what happens when there is an expansion of bank deposits as a result of government borrowing. Through borrowing from banks the government obtains spendable funds in the form of demand deposits without any part of the population necessarily having

[8] On strict quantity theory grounds it might be contended that the burden imposed upon taxpayers would be offset by a gain to holders of existing money claims—the reverse of that abstraction of purchasing power which characterizes "forced saving." Any such defense of the argument under examination would savor strongly of rationalization; it is certainly not the impression conveyed by the words "money is merely shifted about," nor does it seem likely that it is the idea that was meant. It is far from convincing to assume so precise a working of the quantity theory as this defense implies. A further objection is that it leaves out of account the depressing effect of a fall in the level of prices. If it were argued that the burden on taxpayers would be balanced by the gain to others through a rise in the purchasing power of money, it would be necessary to include allowance for the burden imposed by the deflationary pressure also involved.

any less money to spend. The underlying principle is the same in both instances, the difference being only that the one relates to the contraction phase and the other to the expansion phase. It is curious that the principle should be so widely overlooked in the contraction phase when it is so generally recognized in the other. In the case of payments on account of interest, the usual contention holds, namely, that the operation represents a shifting about of funds. For this, unlike the repayment of principal, does not involve a destruction of demand deposits.

A further word is called for as to the applicability of the foregoing remarks with respect to different parts of the national debt. For expansion in the volume of government debt held by banks, which is currently in disfavor on the ground that it tends to be inflationary, might also be criticized as the source of possible deflationary developments in the future. How serious the deflationary tendency of a future contraction of bank credit may be is not, however, altogether clear. In view of the great expansion in circulating medium now taking place, the absolute volume of circulation may come to be regarded as less significant than in the past and devices, such as rationing, for influencing the freedom with which it may be utilized may be regarded as more significant.

Would it be possible to prevent a contraction in the volume of bank credit, while allowing the government to reduce the size of the national debt? The answer to this question is very clearly in the affirmative as far as it relates to debt held outside the banks. Repayment of Series E war savings bonds might, indeed, prove distinctly inflationary in tendency. This would follow if these securities were predominantly held by lower income receivers so that payment out of taxation involved the transfer of purchasing power from citizens of a lower average marginal propensity to consume to those of a higher. The argument presented in this note is pertinent to that part of the national debt held by banks. But the time has passed, if, indeed, it ever existed, when valid generalizations could be offered as to the effect of debt retirement irrespective of the form in which that debt is held.

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Further Commentary on Welfare Economics

I

I am concerned lest some of the homely truths expressed in the last part of Professor Stigler's recent sermon on welfare economics come under discredit because of loose statements in the earlier parts.[1] More specifically, his Section I does not in my opinion give an adequate summary of the so-called "new welfare economics"; the criticisms embodied in Section II, which are not jejune or obscure, do not seem well taken; and the alternative suggested in Section III is in no sense an alternative.

These points may be developed in reverse order. Speaking as but one of

[1] G. J. Stigler, "The New Welfare Economics," *Am. Econ. Rev.*, Vol. XXXIII, No. 2 (June, 1943), pp. 355-59.

the authors cited,[2] I must emphatically state that the "new welfare economics" is not intended as a *substitute* for the "old,"[3] all pretensions notwithstanding. It is an attempt to derive *necessary* conditions whose validity is independent of value judgments as between individuals, or more accurately, whose validity depends only upon less restrictive, and less well-defined value judgments than had previously been assumed. It involves the implications of the relatively mild assumptions that (1) "more" goods are "better" than "less" goods; (2) individual tastes are to "count" in the sense that it is "better" if all individuals are "better" off.

I am not concerned to discuss here whether the propositions which emerge are or are not "interesting and important." Suffice it to say, (1) that progress is made in economic thought when old confusions are clarified (unfortunately for the subject at hand, the reverse is also the case); (2) that anyone, like Professor Stigler and myself, who wishes to enter into the third realm in which assumptions concerning interindividual comparisons are entertained will find that the earlier work has somewhat simplified his task, rather than served as a hindrance or distraction.[4]

Thus, it is only through a misapprehension that the Stigler message could be conceived as an alternative to the welfare economics under discussion; nor can the grave charge be sustained that anything in the latter subject is at odds with the precepts of elementary sociology textbooks. However, frankness necessitates the regrettable admission that neither the old nor new welfare economics qualifies as sprightly conversation in the Dale Carnegie, the Oscar Wilde, or even the Oxford Movement sense.

II

The assertions that economic welfare is not the sole or "primary" social end, that a change in policy may alter indifference curves and tastes, etc., are not so novel or so relevant to a criticism of the new part of the "new welfare economics" as to require any notice here. Stigler's relevant objections are confined to a caliginous illustration designed to show that the new welfare economics leads to the absurd conclusion that society should cease wasting resources on the prosecution and prevention of theft. However, his salvo is

[2] The single most important paper in this field was not included in the list of representative writers. I refer to the classic memoir on this subject by Abram Bergson, which appeared in the *Quarterly Journal of Economics,* under the title "A Brief Formulation of Certain Aspects of Welfare Economics," February, 1938. Subsequent writers have not improved upon this statement, and many have fallen short of it. Mention should also be made of the recent contributions of T. Scitovsky, "A Note on Welfare Propositions in Economics," *Rev. of Econ. Stud.,* Vol. IX, No. 1, pp. 77-88.

[3] As Bergson has shown, the more recent developments proceed in an evolutionary fashion out of the contributions of Pareto and Barone, and represent no break in thought.

[4] It would not be possible or fair to appraise Professor Stigler's own welfare program and philosophy from so brief an account. One could wish that he had elaborated on the General Electric example, bringing the same analysis to bear upon the problem of grade-labeling, upon whether or not Canadian gold mines should be enabled to run in time of war, and a host of other social dilemmas much in need of the light which the magic word of consensus can yield.

misdirected since this conclusion, whether absurd or sensible, cannot be deduced as a theorem from the new welfare economics. The latter does not tell us which of *any* two situations is better, and it does not tell us when society really has the choice between two given situations. For a *limited* set of pairs of situations, it does tell us which *would* be better *if* we had the choice between them. Most important of all, it does *not* tell us that a movement about which it can give a determinate answer as to its desirability is better than a movement about which it can give no such answer.

The choice between present institutions relating to theft and an anarchic policy is one which involves the third realm of value judgments; the choice between present institutions and an alternative situation in which thieves are bought off instead of driven off is also of this third variety, unless a new situation is defined in such a manner as not to be a legitimate alternative open to society (*e.g.*, society will pay only those thieves whose supply of services has not been elicited by the professed bribe).[5]

I suspect that Professor Stigler was attempting to express something like the remarks of the last paragraph. If so, he did not succeed very well, and part of the failure may be attributed to the wish to score a point against the new doctrines. On the whole, the best way to ascertain what a theory does not cover is to investigate what it does include. I turn therefore to a brief criticism of Stigler's summary of the doctrines in question.

III

As Professor Stigler has suggested, the recent writings have been rather formidable; his own attempt to state matters very simply suggests that the difficulties are intrinsic rather than expositional. Although difficult to apprehend for the first time, the subject, once mastered, is easy enough.

In his summary, the author fails to mention what is at the heart of the matter—that the conditions referring to marginal cost and price, and to individuals' rates of substitution are necessary but not sufficient to determine an equilibrium. Speaking technically, the number of equations is less than the number of unknowns, so that we are left with a manifold infinity of values, constituting what I have elsewhere called a "generalized contract locus."

This lack of emphasis explains the occurrence of what can only be a momentary lapse, which leads the author to state that "income (of all countries together) is maximized by free trade." Aside from the meaningless expression in the parentheses, the statement is wrong from almost any point of view, and most particularly from the standpoint of the new welfare economics. Having discussed this briefly in the article cited by Stigler and at length in the other article referred to above, I need not elaborate on this point. The importance of the matter far transcends the field of international trade, since the same problem is raised by those who discuss the senses in which perfect

[5] The new welfare economics does not imply that "exhaustive" expenditure of resources which only serves to redistribute income is a bad thing. It is all right for the Social Security Board to use up punch cards!

competition is optimal.[6] As far as I know, this was adequately analyzed for the first time by the "new welfare" economists, and I would welcome any earlier citations.

IV

A theory cannot have pretensions, although a theorist may. Much of Professor Stigler's argument is *ad hominem* rather than *ad rem*. Utilizing similar arguments, how can we account for Professor Stigler's depth of feeling which leads him to describe the new welfare economics, as "bizarre," as an "analytical trick," as "pretentious"? Is it possible that he was sold a bill of goods, perhaps by an English economist, and now that he has examined the purchase more carefully has found it not to be quite what he had expected? It is natural to shout "false Messiah" under the circumstances, and highly desirable to purge one's mind of previous misconceptions. However, it would seem more decorous for this catharsis to take place in private, rather than on the printed page.

On the other hand, the above analysis may be over subtle. Perhaps a sufficient explanation is to be found in simple *Weltschmerz*, induced by excessive brooding over the assault by the O.P.A. on the chastity of the economics profession.

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Who Makes the Inflationary Gap?

In a note in the June *Review*[1] I described two concepts of the inflationary gap which are statistically measurable for past periods and which, with assumptions regarding the course of business and government financing, may be forecast for a limited period in the future. The concepts are: (1) a potential inflationary gap, and (2) a real inflationary gap, the latter being the more significant one for the problem of price inflation. The real inflationary gap, it was pointed out, is essentially the amount of expansion of cash balances in the hands of individuals and business enterprises.

Further work on the significance of the real inflationary gap, or expansion of cash balances, has resulted in a statistical appraisal, for the period for which data are available (1927-1942), of the character of the pressure on prices resulting from changes in the cash balances of individuals.[2] The seg-

[6] Consider for example, the following quotation from F. H. Knight, *Ethics of Competition*, p. 218, "whether the fundamental tendencies of free contractual relations under competitive control lead to the maximum production of value as measured in price terms."

[1] "Measuring the Inflationary Gap," *Am. Econ. Rev.*, Vol. XXXIII, No. 2 (June, 1943), pp. 365-69.

[2] Cash balances, in this analysis, include both demand and time deposits and money in circulation outside of the banks. Inclusion of time and savings deposits is necessary in statistical analysis for two reasons: (1) lack of information regarding time and demand deposits, respectively, held by corporations and by individuals; and (2) the changed conditions attached to both types of deposits in recent years compared with the period prior to 1933.

ment of the real inflationary gap, or expansion in the volume of circulating media, which remains with individuals appears to have far more influence on the prices of consumers' goods and services than is exercised by the total real inflationary gap. This segment, which is about four-fifths of the total real inflationary gap, produces a pressure on prices which may be described as follows:

1. Increasing average cash balances of individuals exert a pressure on prices equal to the difference between the rate of such expansion and the rate of change in the supplies of goods and services reaching consumers.

2. Decreasing average cash balances of individuals exert a downward pressure on prices approximately equivalent to the percentage decline in such balances per capita.

Associated with this pressure on prices is a high degree of stability, except under special circumstances, in the ratio of consumers' expenditures, including personal taxes, to average cash balances of individuals. This ratio stood at 1.45 in 1942, which is nearly identical with the average annual ratio during the preceding eleven years. The ratio was 1.44 in 1940, and 1.46 in each of the years 1938, 1939, and 1941. The ratio becomes unstable when a shrinkage occurs in the average cash balances of individuals, and may also vary to some extent with business fluctuations.[3]

A close correlation exists between the pressure on prices thus calculated, and the actual change in prices of consumers' goods and services, except in years such as 1929, 1931, and 1934, when extraordinary changes occur, or appear certain to occur, in the volume of individuals' cash balances. The factors which are influential in expanding or contracting the amount of cash balances per capita held by individuals may therefore be regarded as the chief influences causing inflation or deflation of prices of consumers' goods and services.

The aggregate amount of cash balances of individuals, and, therefore, changes in the average amount of such balances per capita, may be assumed to be the net result of:

1. Individuals' decisions regarding the cash balances which they wish to carry and regarding borrowing from or repayment of indebtedness to banks.

2. Actions of business enterprises, particularly corporations, regarding the amount of cash balances held by them and regarding borrowing or repayment of indebtedness to banks.

[3] The data from which this ratio is computed consist of: (1) consumers' expenditures and taxes paid by individuals as estimated by the Department of Commerce, and (2) estimates of average cash balances of individuals which I have prepared. My estimates of the average cash balances of individuals are derived from the Federal Reserve series of total deposits and money in circulation at the beginning, middle, and end of each year, adjusted for (1) government deposits (including both United States deposits and those of states and political subdivisions), (2) cash balances of corporations, (3) deposits owned by foreigners, and (4) difference between the average volume of total deposits and currency outstanding throughout the year (as indicated by monthly data on money in circulation and weekly data from reporting member banks) and the average on the three dates to which the Federal Reserve series pertain. Time and savings deposits are necessarily included since they cannot be segregated in the cash balances of corporations nor in deposits owned by foreigners.

3. Actions of banks in the making of loans and the purchase of securities.

4. Actions of foreigners, or of the federal government, as the only important purchaser or seller of monetary metals within the country, which result in net exports or imports of monetary metals.

5. Actions of banking and monetary authorities (a) influencing the loan and investment policies of banks, or (b) directly influencing the volume of bank deposits or money in circulation.

6. Actions of the government, particularly in wartime, influencing the amount of government obligations sold to banks.

The influence of individuals upon the aggregate cash balances held by them is relatively small. They may influence the total slightly by increasing or repaying personal indebtedness to the banks. Theoretically, they may shift cash balances to or from corporations by making larger or smaller payments to corporations, through purchase of goods or investment in corporate securities, than the wage, dividend, and other payments received from corporations. Whether the shifts in cash balances between individuals and corporations are in fact influenced more or less by actions of individuals than by actions of corporations is unknown, but the writer believes that the control of corporations over their aggregate cash balances is considerably greater than the control of individuals over the aggregate cash balances held by them. Under present wartime conditions individuals may also, in theory, reduce their cash balances, or prevent them from growing, by purchasing United States government securities; but, in practice, the sale of government obligations to banks increases the cash balances of individuals without regard to the volume of bond purchases by individuals.

At times the actions of business enterprises in seeking a large volume of new loans, or in seeking to repay existing debt, may have considerable influence upon the volume of bank loans and discounts. However, business decisions with respect to requests for bank loans are less potent than bankers' decisions regarding the amounts to be loaned and regarding other changes in their portfolios. The reflex influence of business on bankers and on bank supervisory authorities—that is, the degree to which bankers, when passing on loan applications or purchasing or selling securities in the market, and bank supervisory authorities, when examining the portfolio of a bank, are influenced by the waves of optimism or pessimism among business men—may in fact be more significant than business men's own actions in attempting to increase or to decrease their indebtedness to banks.

However, to attribute dominant influence to bankers—in the complex of decisions by individuals, business officials, bankers, bank supervisory officials, international shippers of monetary metals and of capital funds, and monetary and Treasury officials affecting the aggregate amount of cash balances held by individuals—is clearly erroneous. Bankers' decisions are profoundly influenced, at times almost completely dominated, by their reserve position, and this is established for them by Federal Reserve policy, Treasury purchases of monetary metals, and international gold movements.

Under the international gold standard theory the volume of bank credit and therefore the volume of bank deposits is dominated by gold production

and gold movements, via their effect upon gold reserves. With gold production moderate in amount relative to existing stocks, gold movements become the arbiter of the fluctuations within each country of the volume of cash balances of individuals and business. This theory, so long as it worked, created so much havoc that central banks everywhere were impelled to take action to offset the influence of gold movements. However, the belief persists that at times gold movements are the dominating factor in the shrinkage or expansion of the aggregate cash balances of individuals and business concerns.[4]

The extent to which the aggregate amount of cash balances of individuals and business is controlled or influenced by actions of monetary and bank supervisory agencies is also a much disputed matter. Actions of the bank supervisory agencies as such must be distinguished from the actions of the Board of Governors of the Federal Reserve System in its capacity as a central bank or monetary authority. Bank supervisory officials doubtless have some influence on the volume of bank credit and hence on the volume of circulating media through the standards which they use in examining bank portfolios and judging the adequacy of bank capital, particularly in the case of temporary relaxation, during a period of crisis, of customary standards. However, the actions and attitudes of bank supervisors are a minor rather than an important influence upon the aggregate volume of cash balances of individuals and business.

The influence of the Board of Governors of the Federal Reserve System, in its capacity as a monetary authority, upon the cash balances of individuals, or upon the volume of the total circulating media, can best be stated in the form of quotations from official publications.

> . . . Banks supply an important part of the money needed for the functioning of our economic system. . . .
>
> Efforts to regulate the supply, the availability, and the cost of money, and to some extent the way it is used in extending credit, are the direct concern of governmental monetary and banking authorities. The principal monetary function of the Federal Reserve System is to see that banks have adequate reserves to supply the public's legitimate demands for money and to restrain banks from supplying excessive demands. Through the use of monetary and credit powers that influence the volume of reserves and the cost of borrowing additional reserves, limitations may be placed on the availability and cost of money. . . .[5]

[4] Mr. Warren F. Hickernell, for example, in an article in *Foreign Commerce Weekly*, May 8, 1943, states: "In 1932, when foreign funds were withdrawn, it was necessary to compel liquidation of vast amounts of commodities and securities. . . . The gold raid on American banks after Great Britain went off the gold standard on September 21, 1931 . . . wrecked the banks and caused prices and deposits to reach depths which not only impaired business working capital but reduced bank capital to the level where the majority of banks would have been closed except for the public-welfare lenience of examiners who feared the economic and social consequences of law enforcement." However, under section 11(c) of the Federal Reserve act the Federal Reserve Board had power to suspend gold reserves in a crisis, so that foreign funds could have been withdrawn in gold without necessitating contraction of bank deposits in the United States.

In the *Annual Report of the Board of Governors of the Federal Reserve System* for 1940, the following statement is made on page 4: "Bank reserves and bank deposits continued to increase in 1940, again establishing new high records. The principal factor in the increase was the inflow of gold from abroad. . . ."

[5] Woodlief Thomas, "Monetary Controls," *Banking Studies*, pp. 323 and 334.

> The Federal Reserve authorities have considerable control over the *volume* of bank reserves, but they have no corresponding control over the *use* of bank reserves, and in particular they do not have power to create a demand for credit. They are able to expand bank reserves to meet almost any conceivable demand for credit once that demand comes into existence and also to curb or discourage a demand for credit when it shows signs of developing speculative excesses. They possess no means, however, of impelling bank customers to borrow or of impelling bankers to lend.[6]
>
> . . . The role of credit authorities in financing a war without inflation is necessarily subordinate to that of other Government agencies. . . . In wartime the Federal Reserve authorities must provide the banks with adequate reserves to serve as a basis for purchasing such government securities as they are expected to purchase.[7]

The volume of government securities which banks are expected to purchase in wartime, mentioned in the above quotation, is an amount which is determined by Treasury decisions—allotments to banks, issues of bills and certificates of indebtedness designed primarily for sale to the banks, and the timing of financing drives for the sale of securities to wealthy individuals and business concerns other than banks. At the present time, therefore, the Treasury exercises the dominant influence upon changes in the cash balances of individuals.

This résumé of dominant influences upon the expansion or contraction of the cash balances of individuals indicates that the control over those balances is somewhat similar to control of the pigskin in a wild football game. Sometimes the aggregate cash balances of individuals are controlled by banks, sometimes by foreigners, sometimes by the Board of Governors of the Federal Reserve System, sometimes by the federal Treasury, and sometimes by business corporations. These are the principal players who vie with each other in attempting to catch, or to throw to someone else, the ball of inflation and deflation. Together or alternately, they produce an annual inflationary gap in the hands of individuals which, during the past fifteen years, ranged from 8 billion dollars in 1942 to a negative figure of 4 billions in 1932. Together they reduced the average cash balances of individuals per capita from $357 in 1927 to $257 in 1933, a net contraction of 28 per cent, and did not succeed until 1939 in restoring the figure to its 1927 amount.[8] Under the stimulus of war, the players are pushing the per capita cash balances of individuals to unprecedented heights.[9]

Looking to the future, the stability of the ratio of consumers' expenditures to individuals' cash balances and the character of the pressure of the inflationary gap on prices suggest that the greater part of the amplitude of business fluctuations could be eliminated by a monetary policy which achieves the dual objectives of (1) avoiding at any time a decrease in the per capita cash

[6] *The Federal Reserve System—Its Purposes and Functions*, pp. 114-115.

[7] *Annual Report of the Board of Governors of the Federal Reserve System*, 1942, p. 26.

[8] Perhaps it is a coincidence—and perhaps not—that the Federal Reserve index of industrial production, reduced to a per capita basis, did not come back to its 1929 level until 1940.

[9] Continuation of the policy pursued thus far in the war of making allotments of bonds to banks and timing financing drives so that banks purchase about two-fifths of the securities issued by the Treasury will result in cash balances in the hands of individuals at the end of 1943 of more than $600 per capita.

balances of individuals,[10] and (2) increasing the cash balances of individuals at a rate approximately equal to the rate of increase in production of consumers' goods and services, adjusted for taxes paid by individuals. Economists would doubtless agree that it is entirely feasible to set up a central monetary authority with adequate power to control, within reasonably narrow limits, the aggregate bank deposits and currency held by individuals and business and therefore to exercise an overwhelmingly dominant influence upon changes from year to year in the cash balances per capita held by individuals. Such an authority might need greater powers with respect to the direct purchase of assets for monetization, and possibly also greater powers of control over the maximum credit expansion of commercial banks, than are now possessed by any government agency.

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Reply to Professor Clark on Imperfect Competition Theory and Basing-Point Problems

I

In his remarks[1] upon my recent article,[2] Professor J. M. Clark raises several issues which warrant brief additional comment. According to Clark, the "main argument" with which he disagrees is a principle which he formulates as follows: "regular and habitual freight absorption is inherently and always a monopolistic practice within the meaning of the antitrust laws, and proof of collusion." My own somewhat different statements bearing on this point were. "Regular and systematic price identity of this sort (identical delivered prices according to a formula) over a period of time can exist only as the result of monopolistic agreement or of monopolistic coercion, actual or implied" (p. 733); and "It is a generally accepted principle, clearly conceived first in the theory of 'dumping' in foreign commerce, that *systematic* price discrimination can occur only with monopoly" (p. 742).

Apparently, Clark recognizes and accepts the well-established principle "that discrimination cannot exist under competition, but only under monopoly" (his phrasing), but he appears to be unwilling "to classify freight absorption as discrimination" (his Section II) and implies a denial that freight absorption is discrimination. Whenever a mill is charging "phantom freight" and is taking "freight absorption," it is making a difference in prices among

[10] Possible exceptions to this are: (1) a situation such as the present, when a shrinkage is occurring in the volume of consumers' goods and services which can be made available to consumers; and (2) significant changes in basic factors influencing the rate of use of money by individuals, such as the length of pay roll periods, or the number of persons receiving their income regularly at short intervals compared with the number receiving most of their income at certain seasons of the year.

[1] "Imperfect Competition Theory and Basing-Point Problems," *Am. Econ. Rev.*, Vol XXXIII, No. 2 (June, 1943), pp. 283-300.

[2] V. A. Mund, "Monopolistic Competition Theory and Public Price Policy," *Am. Econ. Rev.*, Vol. XXXII, No. 4 (Dec., 1942), pp. 727-43.

its customers without a corresponding difference in quality, service, or conditions in the terms of sale, and such a price practice is the generally accepted definition of price discrimination. Since Clark is sympathetic to a policy of allowing freight absorption in some degree, and since price discrimination by the Robinson-Patman act is *prima facie* illegal with the burden of proof resting on the seller to prove that it is not so, it is evident why he is reluctant to identify freight absorption and price discrimination.

In endeavoring to make a case for freight absorption and pricing formulas, Clark and other defenders of the basing-point practice have misused recent monopolistic competition theory. The argument runs that, because identical delivered prices by two (or a few) competitors can *conceivably* not be collusive, therefore they *always must be* innocent in the case of systematic formula pricing by numerous rival sellers. Such an application of the theory permits these defenders to get away from the disagreeable fact that the basing-point practice is illegal under present law, and enables them to shift attention to the question of so-called "larger bearing," as to how the law ought to be changed to enable their clients to retain the major advantages of their monopolistic practices.

II

In attacking the proposition that freight absorbing sales do not regularly and systematically occur under conditions of effective competition, Clark says that this doctrine presupposes "a kind of competition for which the necessary conditions do not exist in large-scale manufacturing." That is not an argument against the proposition, as Clark assumes it to be. At best it is a begging of the question, or an imperfectly expressed truism. It simply admits the monopolistic conditions which make necessary some kind of legal action if the competition called for by the antitrust laws is to be attained. It merely states the problem while pretending to invalidate the proposed solution.

Clark's proposition could be accepted more unreservedly if it were made to read: "a kind of competition for which the necessary conditions do not now exist in a number of industries (generally large-scale manufacturing) in the absence of a more effective legal prohibition of discrimination." The reason for any legal prohibition of discrimination is the fact that the actual "conditions" in a good deal of manufacturing industry today give sellers a degree of monopoly power which they exploit to the injury of nearby buyers. It is true that if there is only one seller at a place *and* he is *allowed to discriminate*, he may very fully exercise his monopoly power.

Clark's claim (latter part of Section II) that differential mill nets are "natural" is also true in the sense that it is natural to desire profits, and discrimination is profitable to a monopoly if permitted by law. But to argue for price discrimination on the ground that it permits a monopolist to get greater profits is very naïve if an economist is taking the public point of view.

III

Clark quite naturally attacks my concept of competition. "There is a real clash here between two concepts of competition," he says. Of course there is,

and the difference lies in his general acceptance of modern business rivalries based on pricing formulas as being an expression of the maximum attainable workable price competition in substantial accord with the antitrust laws. With multiple sellers acting as one on price, there are certain to be rival salesmen, sales talks, and service gestures, but to identify these wasteful forms of non-price competition as "price competition," as economists employed by basing-point industries do, necessarily makes competition a concept which is out of accord with established usage of words.

Clark's present inclination to regard as price competition existing forms of business rivalries between sellers adhering to the basing-point formula forces him to the view that discrimination is a result of overhead costs rather than of monopoly. It is undeniably true that real differences in overhead costs may encourage an enterpriser to discriminate in price, *provided he can get away with it*. However, under conditions of effective, open, above-board competition, either in a produce-exchange or quotation-price type of market, a seller cannot get away with systematic price discrimination. It is in the monopoly conditions prevailing in modern industry that price competition is replaced by a coöperative system of "price matching" discrimination, designed to avoid real price competition.

When "price cutting" (in the sense of discrimination, not merely the reduction of a uniform price) develops, it may become chaotic if a seller uses his local monopoly advantage for moving mill prices up and down to match delivered prices on distant sales. It is erroneous to find the reason in an allocation of overhead costs, for such an allocation can exist only if one is allowed to discriminate. If discrimination were prohibited, the overhead cost thesis to justify it would, of course, vanish; and one in a given industry, like the cement industry, could not state that the industry "must systematically restrain competition or be ruined," to use the revealing phrase of John Treanor, a frank industrialist.

IV

Clark takes the sharpest issue with my statement that basing-point defenders (academic ones) charge that "perfect competition" is the goal expected and sought by those concerned with making competition more effective. In behalf of economists hired by basing-point industries, Clark (assuming his authority to do so) thoroughly and completely wishes to deny this charge. This is a refreshing and gratifying assurance. The charge appears to have been made in the first instance by Professor de Chazeau in his analysis of the work of Professor Fetter on the basing-point plan. In his review of de Chazeau's study of iron and steel prices, as well as in his rejoinder to de Chazeau's reply, Fetter emphatically denied any claim that the mill-base policy would restore "perfect competition," or anything resembling such a statement.[3] Mr. de Chazeau in his reply failed to withdraw the charge,[4] which then became a

[3] F. A. Fetter, "The New Plea for Basing-Point Monopoly," *Jour. Pol. Econ.*, Vol. XLV, No. 5 (Oct., 1937), pp. 589-91; and "Rejoinder to Professor de Chazeau's Reply," *ibid.*, Vol. XLVI, No. 4 (Aug., 1938), p. 567.

[4] M. G. de Chazeau, "Public Policy and Discriminatory Prices of Steel: A Reply to Professor Fetter," *Jour. Pol. Econ.*, Vol. XLVI, No. 4 (Aug., 1938), pp. 537-66.

part of the regular stock arguments of the basing-point defenders. It was a major and essential contention of the economists testifying for the industry in the Cement Institute Case in 1940.

Both Clark and de Chazeau conferred with the economists employed by industry in this case on concepts of competition and related terms before these men took the witness stand.

Clark's statement that, after examining my references, he can find no basis for my allegation can be answered by turning to the records themselves. The reader can readily check my references in the work of Professor de Chazeau and in the U. S. Steel Corporation T. N. E. C. study which the Corporation states was directed by Professor Yntema, for these publications are widely available. Copies of the Cement Institute Proceedings (Docket 3167-2-45), however, are not so accessible. I used the official typewritten copy of the Proceedings available at the Federal Trade Commission, Washington, D.C. As an example of this testimony, Dr. Clare E. Griffin, in testifying for the Cement Institute, stated in summary that a major factor in the reasoning of the critics of the basing-point plan is that they base their conclusions upon some preconceived concept of perfect competition (p. 43297). Griffin further testified, "They [the older economists] made certain assumptions which were the assumptions that the present-day economist designates by that term, 'perfect competition.' I think the older economist, as perhaps my earlier answer implied, when he talked about competition, was implying that that was perfect competition" (p. 42948). Again, as an example, Dr. Fred R. Fairchild in his testimony for the Cement Institute declared that Professor Viner's analysis of price competition is one which prevails under conditions of pure or perfect competition, and that Viner appears to have ignored the distinction between imperfect competition and perfect competition (pp. 44774-44775, 45329-45331).

In Clark's review of my article, he himself appears to express the charge which he seeks to deny. Thus in Section IV he says: "the earlier theory, whatever it did or did not explicitly and consciously assume, required the presence of certain kinds of conditions (already discussed) which are the marks of perfect competition." And again, in the same section: "it is in this sense that the case against basing-point pricing takes perfect competition as a standard."

Clark claims that I fail to distinguish the issue that basing-point apologists charge critics with wanting to establish perfect competition from the "real" issue that critics want to convict any industry of collusion if it fails to bring about a price structure which only perfect competition could bring about. To this charge I must deny again any claim, or knowledge of any claim by anyone, that the uniform mill-base rule would create in practice "perfect competition." What is claimed is that, with an application of the law against discrimination (which Clark does not want) and with no private agreement or coercion, actual or implied, there would be possible a much nearer approach to the kind of workable competition (possibly never "perfect") called for by the antitrust laws. The defenders of workable competition do affirm that historical and empirical studies indicate that the price structures which basing-

point and freight-allowed industries have brought forth are monopolistic and based on collusion. The pricing formulas which now prevail so widely, moreover, in the major industries were the result of a deliberate change from the uniform mill-base rule.

V

Clark's plea for more information on industrial pricing problems and policies is one with which all earnest supporters of antitrust law policy will agree, provided that the studies are carried on along inductive, empirical and historical lines. The studies of industrial prices and price policies approved and made by economists employed by basing-point industries are largely based on hypothetical assumptions, theoretic possibilities, and conjecture. In the list of questions which Clark wants to study, the question of the legality of the basing-point practice is singularly absent. The mountain of factual evidence at hand on the basing-point practice and its legality, as well as the recent (July 17, 1943) cease-and-desist order of the Federal Trade Commission in the Cement Institute Case, makes Clark's plea at this time a tacit confession that as matters now stand the economic arguments in defense of the basing-point practice have collapsed.

VI

It is gratifying that Clark concludes his review by agreeing that something needs to be done about the practice of academic economists serving as experts for corporations charged with violating the antitrust laws. If the present trend continues it promises soon to be impossible to maintain the spirit of academic freedom and impartiality which should characterize university life and work. Economics is in serious danger of becoming a "kept" science, reflecting the views and interests of the dominant industrial groups, rather than of consumers and the nation, generally.

In view of the growing feeling that economic experts hired by private corporations are partisan and biased in favor of the side they represent, it would be wholesome if the American Economic Association would create a committee to study the practice of employing academic economists in antitrust litigation and to formulate and present a tentative code of ethics regarding the use of academic testimony in such cases.

VERNON A. MUND

University of Washington

Rejoinder

Professor Mund's reply to my article convicts me of having failed to make clear to him the fact that I was not arguing the whole issue of basing-point practices (something I could not properly do) but was merely disputing his theory of competition and its relation to freight absorption. His reply does not, in fact, defend his theory; it merely argues that the practices can be condemned on other grounds, and attacks my theory, not as being untrue but as being an unqualified defense of the practices. This last fits strangely with the first, which implies that the theory—the only thing I was attacking—is not essential to the case against the practices.

My argument aimed at no particular conclusion as to what should be done with basing-point practices. If my theoretical view prevailed, it would simply mean that the practices would be contested on grounds other than the theory Mund holds; and the case (which of course includes much other material) would be unaffected except to the extent that it may hinge on this theory. How much difference this would make is not obvious. It would forestall possible future sweeping general action based on this theory alone; and condemning all freight absorption as such, without need of relying on inquiry into the special circumstances of a particular case. Aside from this, the effect might depend on the extent to which the theory lends factual evidence a force it would not otherwise have.

The reader of Professor Mund's reply might fairly be invited, in the light of the above, to reread my original article. In treating it as a stock basing-point defense, he attacks positions I have not taken: notably in the last paragraph of Section I of his reply, the last sentence of Section II, the second and third sentences of Section III, and all but the first sentence of Section V. An attempt at clearer definition of the issues under debate may therefore be warranted.

They are issues of theory, coming under the general theme: "Discrimination, including freight absorption, is monopolistic." This breaks up into two groups of leading propositions. The first is concerned with the effectiveness of competitive pressures on prices; and centers largely on the effect of freight absorption in bringing the "oligopoly principle" into play, though it has numerous ramifications.[1] This is an important issue, on which my previous writings should make clear the general character of my position. My article proposes no verdict, but advocates full investigation and relevant discussion. To that end, this issue should be kept distinct enough from the issue of collusion so that neither would be supported by evidence pertinent only to the other, rather than merging them as Mund does.[2] Or that is my naïve idea.

The second group includes various forms of the proposition: "Discrimination proves collusion." Here the discrepancy between my statement of Mund's position and the one which he prefers, noted in the opening paragraph of his reply, arose partly from a feeling that his working doctrine was more unqualified than his preferred formal statement. This has now crystallized into the belief that there are two distinct ideas here, one of which I was combatting, while the other needs fuller formulation before debate could be usefully joined. They might turn out to be inconsistent with one another. I will call them Propositions 1 and 2.

Proposition 1, in its more significant positive form, states categorically that competition tends to an approximately uniform mill-net price structure. It rested originally on the traditional principle that competition, because of its inherent nature or by the action of its basic force (the option of the buyer to trade with a rival seller), prevents any producer from being able to "get away with" differential mill-nets. This is the thesis Mund has developed through a series of articles, and his frequent unqualified condemnation of

[1] An allied phase was mentioned in my article, footnote 8.

[2] See his reply, Section II.

discrimination appears to arise from it. I do not accept it as applied to competition in which the effective rival seller is located at a distance from the producer in question. Mund appears at one point to concede my contention,[3] but retorts by shifting to the issue of the effectiveness of "discriminatory" competition, and claiming that I have begged that question (which I was not at that point discussing). This shifting of issues leads him into two instances of question-begging. One is his statement: "If discrimination were prohibited, the overhead cost thesis to justify it would, of course, vanish . . ." presented in support of the thesis that competition in itself suffices to extinguish "discrimination." The other is the last paragraph of Section II of his reply, where the logic is equally circular.

Proposition 2 rests on the experience of basing-point industries, unlike Proposition 1, which antedates this experience. As a generalized thesis it appears to be in an embryonic state at present, lacking formulation which would show what operative forces it depends on, how they work, and what kind of price structure they would bring about in the absence of collusion. Thus it has not, so far as I am aware, been stated in positive form corresponding to the above statement of Proposition 1, but only in negative form as Mund appears to state it in the opening paragraph of his reply. The trouble is that the negative form of statement does not reveal whether it is a genuine outgrowth of basing-point experience or merely a qualified form of Proposition 1, derived from it by *a fortiori* reasoning. My best present formulation of Proposition 2, largely from indications outside Mund's writings, is as follows: "The experience of systematic basing-point pricing shows that it cannot be set up without concerted action, and tends to be broken down unless certain disintegrating forces are restrained by methods involving collusion or coercion or both. These disintegrating forces include, among others, pricing that must be 'discriminatory' in order to produce the indicated effect; therefore the symptom of absence of collusion is not uniform mill-net pricing, but pricing in which 'discrimination' exists, but is irregular and unsystematic."

Mund might not accept the second sentence of this statement. He appeals to factual experience, but reconciles it with the uniform mill-net principle. I believe this to be an inconsistency which can remain unrealized only so long as the operative mechanism of Proposition 2 is not fully worked out. It is to be hoped that this proposition may be developed to a point permitting appraisal of its rationale and its relation to the uniform mill-net principle.

As to the plea for forward-looking inquiry, Mund construes it as a mere call for more facts, rather than for asking a different kind of question; and is excessively suspicious of any economic inquiry separate from inquiry of the present legal type. I had expected that members of basing-point industries might violently condemn my modest and qualified suggestion of modified procedure as weakening their legal protection; but I certainly did not expect that it would be twisted into the reverse guise.[4] The question would hinge on the nature of the legal arrangements which, as I am keenly aware, would be necessary to develop this suggestion into anything deserving the name of a proposal.

[3] See his reply, Section II, second paragraph, first sentence.

[4] See his reply, last sentence of Section I.

Such development seemed hardly called for in view of the little likelihood of action in this direction at this time.

In the matter of the disputed citations, Mund maintains his former position and documents it with quotations which illustrate my contention, thus attesting his sincerity but not his correctness.[5] Let me make one more attempt at clarification by expressing the logical counterpart of this set of ideas in terms of simpler content. Statement A: "Hitler wants to walk on the water" is not identical or interchangeable with Statement B: "Hitler takes walking on the water as a standard"; or with Statement C: "Hitler wants to confiscate the property of all Jews who do not succeed in walking on the water; and it is in that sense that he takes walking on the water as a standard." Mund does what is logically equivalent to using a refutation of Statement A to refute Statement C; and citing passages, representing that they all contain Statement A, when most of them contain Statement B or C or some other statement instead. He even quotes my statement of the second half of C as evidence that I have subscribed to A. The important thing is what Hitler actually wants, not what various commentators have said about it.

Mund states that I agree that something needs to be done about academic economists serving as experts for corporations charged with violating the antitrust laws. I am left in some doubt how far we agree. What I said was: "... the state of the economist as expert witness wants improving, whichever side he testifies for." I do not credit either side with a monopoly on partisan bias.

Other comments have reached me indicating that some readers have interpreted my remarks as approving misrepresentation by suppression on the part of witnesses. It had not occurred to me that my language could be so construed, or I should have safeguarded it more effectively. Since it seems necessary, I will say that in speaking of the witnesses "obvious obligation of truthfulness," I had no reservations, and would set as a standard that the witness should give essentially the same answer to a given question regardless of which side the answer favored or seemed to favor. I also suggested that the witness is limited by the selective list of questions he is asked. He may dislike this limitation but acquiesces in it. If he takes active part in mapping the questions he is to be asked (something I did not contemplate), his responsibility reaches farther; but few witnesses can be held responsible for all angles of a major case. Should a witness refuse to testify on one point on which his verdict is clear and useful to one side, because the whole case includes other points on which his verdict would be less clear, or unfavorable to that side?

Other points invite comment; but one must stop somewhere, even though there are loose ends, as presumably there always will be. They may be covered by a general proviso that silence does not imply assent to Professor Mund's interpretations of economics, law or history.

J. M. Clark

Columbia University

[5] I have recently found one passage in the Daugherty, de Chazeau and Stratton volume (p. 1146, lines 16-19) which comes nearer Mund's interpretation than the ones he cites from that source. It runs, however, in terms of "pure" and not "perfect" competition; which, as the authors treat them, are quite different.

Basing-Point Problems: Comment

Professor J. M. Clark's discussion[1] represents an important contribution toward a clearer appraisal of the basing-point problem. It is unfortunate that so large a proportion of the literature on this issue has proceeded in terms of inadequately defined epithets such as "competitive," "monopolistic," and "discriminatory" rather than with reference to the realities of the market place, so that at times the whole controversy has appeared to belong more in the realm of semantics than of economics.

One of the points raised in passing by Professor Clark merits further emphasis. The location of demand for such products as steel and cement is shifting constantly. It would be neither practical nor economic in each individual area to have sufficient plant capacity to meet maximum possible demand, with excess overhead representing a heavy charge upon the price structure. There must be sufficient flexibility in the system to permit mills with unused capacity to ship into areas where demand is straining the facilities of nearby producers. The only issue is the best means of achieving such flexibility.

Assume the typical case of an industry manufacturing heavy construction materials, with mill clusters scattered irregularly throughout the country. There is a construction boom in an area adjacent to one producing center, calling for materials substantially in excess of producing capacity at that center. The deficit can be supplied by calling upon temporarily idle facilities of more distant mills. Assume further that base prices at the adjacent and remote mills have been approximately equal. (Whether this equality reflects similarity in costs, competition at the fringes, or some form of collusion is not relevant to the present discussion.) What are the practical alternatives in this situation?

1. The price in the shortage area may rise to a level permitting the most distant mill whose increment of supply is required to maintain its prevailing plant quotation and to charge full freight. While this may be in accord with orthodox theory, it would result in a substantial increase in the costs of the construction projects and inordinately high profits for the local mills. The unfavorable effects of these high costs may persist long after the immediate emergency has passed.

2. Prices charged by the local mills may remain relatively stable, while more distant producers still insist upon adding full freight to their prevailing plant quotations. Favored or fortunate buyers would be able to obtain their materials from local sources; those forced to depend upon distant mills would incur a serious competitive disadvantage, or find it necessary to abandon the projects upon which they are engaged.

3. The distant seller can reduce his own mill price sufficiently to permit him to meet the price prevailing in the shortage area, after adding full freight. In many cases, of course, the consequent loss in revenue on nearby business would exceed the gross amount of the distant sale.

4. He can meet the price prevailing in the shortage area on sales to that area, without modifying the price in his own home territory.

[1] "Imperfect Competition Theory and Basing-Point Problems," *Am. Econ. Rev.*, Vol. XXXIII, No. 2 (June, 1943), pp. 283-300.

I have yet to meet an economist who would consider the results of the first two alternatives as particularly desirable, or a business man who would regard the third alternative as sane. The last alternative, involving some form of freight absorption, is left as the only practical solution.

Naturally sales involving freight absorption will not in practice be limited to situations of the type described. Whenever demand in a seller's home territory is insufficient to engage his productive capacity satisfactorily, he will seek to dispose of his surplus in more distant areas provided the amount of freight he must absorb is not so great as to make the transaction unprofitable. The lower the fraction of capacity at which a mill is operating the greater the incentive to make such sales will ordinarily be, since most business men will exert more sales effort to convert a loss into a small profit than to augment a profit already substantial, and they will strive harder to maintain a minimum working labor force than to take on work involving the hiring of additional employees. Consequently there will be a general tendency for sales involving freight absorption to move from areas in which mills are operating at a low fraction of capacity to areas in which demand is greater relative to nearby facilities. This rule cannot be invariable, and there will always be some uneconomic cross shipments. However, these are the necessary price for increasing the flexibility of the industrial system and preventing the formation of airtight local monopolies.

It has been argued repeatedly that freight absorption necessarily involves "price discrimination" and that price discrimination is necessarily "monopolistic." This line of reasoning verges on pure semantics. In part it reflects too narrow a concept of "price," defining it purely from the point of view of the seller and ignoring that of the buyer. The discrimination that concerns the latter, particularly in the field of construction materials, is any difference between the total price he pays and that paid by his competitors. The distribution of his total price between the seller and the transportation agency is of no greater—and no less—significance to the buyer than is the distribution of the seller's net return between labor, materials, overhead and profits. There would be real discrimination if a rigid insistence upon uniform mill nets resulted in adjacent and competing buyers paying different delivered prices. This principle is recognized in law as well as economics; thus the Robinson-Patman act prohibits price discrimination only where there is resultant injury to competition, and specifically permits a distant seller to meet the price offer of a more advantageously located rival.

It is perfectly true that many basing-point systems, as well as other elaborate systems of geographic pricing (*e.g.*, price zones), are collusive in origin and monopolistic in effect. But this does not arise from the fact of freight absorption as such, but from the clearly artificial and restrictive forms it takes.[2] As Professor Clark points out, markets differ in nature and all cannot

[2] To illustrate, the recent Federal Trade Commission decision in the cement case finds that there are a considerable number of practices in connection with the calculation of freight designed to insure complete uniformity of delivered prices in each locality. These may well be regarded as collusive and monopolistic. However, the findings of the Commission also indicate uniformity of base prices charged by each mill, applicable to its home territory on sales on which no freight absorption occurs. The arbitrary elimination of

be appraised by the same yardstick. Freight absorption is a natural and appropriate method for avoiding progressive constriction of markets for heavy industrial products; there is nothing inherently anticompetitive about it. Rigid adherence to a uniform f.o.b. plant price may, in certain cases, be far more monopolistic in origin and effect than a basing-point system or other scheme of freight absorption. The judgment as to whether the price structure observed in a particular industry is, in fact, monopolistic must be reached by a careful examination of its origin, details, and effects, and not on the basis of abstract reasoning unrelated to the world we live in.

SAUL NELSON

Washington, D.C.

Comment on Review of *Industrial Concentration and Price Inflexibility*

Once an author has committed himself to print he must stand the test of professional criticism, and such criticism is to be welcomed. However, criticism founded upon misunderstanding, careless reading or misinterpretation and likewise committed to print must stand the test of rebuttal. Mr. John M. Blair's review[1] of my *Industrial Concentration and Price Inflexibility* (Washington, American Council on Public Affairs, 1942) merits rebuttal partially on the grounds outlined.

The reviewer has concentrated upon two chapters of the book dealing with the flexibility of prices relative to costs. The first of these, Chapter V, which is concerned with methods, is somewhat tedious, and if the reviewer passed over it in haste he can hardly be blamed. Unfortunately, his criticism of the results of the statistical study, Chapter VI, is largely invalidated by what was written in the preceding chapter on methods.

The object of the investigation contained in these two chapters should be clarified. It was to determine whether previous studies of the relationship between concentration and price inflexibility (in the sense of amplitude of price decline during depression) had ignored variables other than concentration which would account for inflexible prices. The most important of these other variables which suggests itself immediately but which had generally been ignored is variation in prime costs.

> If one industry experiences a drop of twenty per cent in its prime cost in a given period and another experiences a rise of ten per cent, it would be unreasonable to charge that, because the average price of the products of the first industry fell twenty per cent and the average price of the products of the second remained the same, the second industry's price was inflexible in view of the changes which occurred. Yet this is exactly the position which the National Resources Planning Board, for instance, must take.[2]

Having determined that the relationship of price change to prime cost change merited investigation, the writer then undertook to find the data.

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freight absorption would in no way cure the latter situation and might, in fact, aggravate it. There is no reason for focusing upon freight absorption *per se* as the principal monopolistic element or for arguing that the only way in which competition can be preserved is to insist upon the maintenance of uniform mill nets by each seller.

[1] *Am. Econ. Rev.*, Vol. XXXIII, No. 1 (Mar., 1943), pp. 181-83.

[2] *Industrial Concentration and Price Inflexibility*, pp. 91-92.

The only source of data available for the comprehensive study required was the Census of Manufactures. From these data Professor Mills and the National Bureau of Economic Research had calculated unit price and unit direct cost indices by dividing indices of total value and of total direct cost by indices of production. The "ideal" index formula was used to construct the production indices, which were adjusted for changes in coverage resulting from changes in the composition of output from one Census year to the next.[3] Index numbers were derived in the following manner:

Quantity Index,

$$Q = \sqrt{\frac{\Sigma q_1 p_0}{\Sigma q_0 p_0} \cdot \frac{\Sigma q_1 p_1}{\Sigma q_0 p_1}}$$

Value Index,

$$V = \frac{\Sigma p_1 q_1}{\Sigma p_0 q_0}$$

and Price Index,

$$P = \frac{V}{Q} = \frac{\Sigma p_1 q_1}{\Sigma p_0 q_0} \div \sqrt{\frac{\Sigma q_1 p_0}{\Sigma q_0 p_0} \cdot \frac{\Sigma q_1 p_1}{\Sigma q_0 p_1}}$$

This reduces to

$$P = \sqrt{\frac{\Sigma p_1 q_0}{\Sigma p_0 q_0} \cdot \frac{\Sigma p_1 q_1}{\Sigma p_0 q_1}}$$

The method and the corrections employed answer in part Mr. Blair's criticism that "changes in composition generally make industry-wide value of products unusable as prices. . . ."[4] He states later on, however, that

> . . . unit value figures for an individual commodity are affected much less—though still seriously—by changes in composition than are unit value figures for an entire industry, and thus approximate prices far more closely than do the industry-wide figures.

This argument is, of course, mostly gratuitous. The indices of unit value derived by Mills reflect the changes in composition inherent in average prices for individual commodities. It can be seen from inspection of the index formula that base *and* given year weights are employed for each link in the chain index. Therefore, the bias in the index based upon changes in composition is inherent in the average prices of individual commodities which are used as weights in deriving the industry production index. If changes in composition do not affect the average prices for commodities seriously, as Blair contends, then they do not affect the unit value indexes for the industry any more seriously.[5] The effect of changes in coverage was unimportant.

[3] *Ibid.*, 96-99.

[4] *Am. Econ. Rev.*, Vol. XXXIII, No. 1, p. 181.

[5] Parenthetically it should be noted that the author did not assume as the reviewer loosely charges that the composition of output remained constant in using these indices.

A test of the reliability of the Census indices is provided by comparing the movement of an index of manufactured goods prices derived from the Census with that of an index derived from the Bureau of Labor Statistics wholesale price data. Mills has shown in *Prices in Recession and Recovery* that the two indices agreed well during the 1920's and the following comparisons were made for 1931 and 1933:

Index derived from	*1929*	*1931*	*1933*
Census data	100	78	66
Bureau of Labor Statistics	100	81	76

Because the two indices agreed well in 1931, the author concentrated upon this year, despite the fact that the failure of the two indices to agree in 1933 cannot be attributed solely to error in the index derived from the Census. The author cautioned also that "the results should be presented only for groups of industries where a general tendency may be discernible despite some error in either direction for individual industries" (p. 112).

But let us proceed to the nub of the reviewer's criticism. The reviewer concludes that:

> The relationship between actual prices and actual costs is ignored in any work of this kind, and no conclusions regarding a necessary "amplitude of price change" or a "restriction upon price cuts" can be drawn from data which merely indicate the percentage change in costs.

This charge that the author forgets that "he is dealing only with percentage movements" is uncalled for. On page 107 in the book in the middle of a discussion of this difficulty, the following sentence appears:

> It is obvious that a change of a given absolute amount in price and cost will produce a larger change in a fixed base index of cost than in a similar index of price, since a base value in absolute terms for the cost index is smaller than the base value for the price index.

For this reason, the author employed the roundabout method of calculating the change in the price index which could be expected on the assumption that *actual* dollars and cents prices moved by exactly the same amounts in dollars and cents as actual dollars and cents direct costs. The price index number which would have resulted, had prices reflected exactly the change in direct cost, was called the "expected price index" and was calculated as follows:

Expected Price Index,

$$Pe = P_1 - \left[(C_1 - C_2) \frac{c_1}{p_1} \right]$$

where C refers to the cost index, P to the price index, p_1 to the base year actual price (or value of output) and c_1 to the base year average direct cost (or total direct cost).

The reviewer lifted a sentence to this effect which he quotes out of context. The context is a model analysis beginning on p. 98 and ending on p. 107. For purposes of this model analysis, not only was composition of output assumed to be constant, but *competition* was assumed to be *pure!* The second assumption should have been warning enough to the reviewer that the author was not concerned with the outdoor world in that section of the book.

Movements in the unit value index for each industry were compared with movements in the expected price index. For the period 1929-31 for 107 industries the Pearsonian coefficient of correlation was +0.85. For 86 industries for which adequate data were available for the period 1929-33, the coefficient of correlation was +0.92. There was, for a similar group of industries, no correlation of economic significance between concentration and price change for the same periods. If the reviewer or any one else can make a showing that concentration was responsible for price inflexibility rather than differential direct cost behavior, the writer is willing to be shown.

Evidence was presented indicating that concentration was of some significance in accentuating depression, but that its effects could not be discerned by observing price behavior alone. This portion of the work dealt with changes in the margin between direct cost and price which is a more meaningful subject for investigation than mere price behavior. Since this portion of the work was ignored in the review, there is no cause for elaborating upon it here.

ALFRED C. NEAL

Washington, D.C.

A Correction

In the report of Proceedings at the meeting of the Association last January, the following paragraph appears at page 458:[1]

"Mr. Crowther said he had been accused of weasling on his own views—a crime worse than being diplomatic. This accusation, however, had been based on the assumption that Mr. Crowther was a follower of the views of Lord Keynes. The assumption was without foundation. Mr. Crowther defied any member of the round table to find an article in *The Economist* supporting Lord Keynes's views on international trade."

May I correct this? At an earlier meeting, Professor Haberler had made a strong attack on certain highly restrictionist views which he attributed to Lord Keynes and of which he accused me of being an unavowed adherent. I said that I doubted whether Lord Keynes would recognize his views in Professor Habeler's description of them, but that in any case I did not hold them. What I was dissenting from was not (as your report indicates) Lord Keynes's views, but those attributed to him by Professor Haberler.

Since then, I have confirmed from Lord Keynes himself that his views on international trade are not, and never have been, such as Professor Haberler described them. Would it not be an advantage in discussions of this kind if an attempt were made to avoid misrepresentation of other people's opinions?

GEOFFREY CROWTHER

London

[1] *Am. Econ. Rev.*, Vol. XXXIII, No. 1 (Mar., 1943), suppl.

BOOK REVIEWS

Economic Theory; General Works

Die räumliche Ordnung der Wirtschaft; Eine Untersuchung über Standort, Wirtschaftsgebiete und internationalen Handel. By AUGUST LÖSCH. (Jena: Fischer. 1940. Pp. 348.)

The theory of international trade, always a vigorous part of general economic theory, has been enriched by an important new contribution. With Ohlin's substitution of economic regions for countries, the main stream of international trade theory changed in emphasis, and general location problems came to the fore. In his *Enquiry into Location, Economic Regions, and International Trade,*[1] Dr. Lösch has advanced this important field of general economic theory in a significant and original way. His book is a detailed study of location problems and theory, and of the exact nature of economic regions which were only loosely defined by Ohlin. He applies his new ideas to international trade theory and various practical problems. No short review can do justice to the wealth of theoretical and factual material presented by Dr. Lösch. Since most of Lösch's ideas are not available in English,[2] I shall be concerned mainly, first, to explain and examine critically some of his theoretical contributions, and, second, to show how he uses his theory in discussing the theory of comparative cost and the transfer problem.

The book is divided into four main parts. The first deals with location (Standort), the second with economic regions, the third with trade. The fourth part gives numerous examples, mostly drawn from American data, for each of the previous headings. The spiritual ancestors of Lösch are Alfred Weber and Bertil Ohlin; the theoretical framework is that of E. H. Chamberlin, as well as that of the general equilibrium school.

I

Lösch's central thesis for which he makes out a convincing case may be formulated briefly as follows: a logical pattern of locations would develop even

[1] A microfilm edition of the book is available at University Microfilms, Inc., Ann Arbor, Michigan.

[2] Some of the fundamental ideas of the book may be found in "The Nature of Economic Regions," *South. Econ. Jour.*, Vol. V (July, 1938), pp. 71-78. Also easily accessible in this country are Dr. Lösch's contributions to the *Weltwirtschaftliches Archiv:* "Wo gilt das Theorem der komparativen Kosten?" 48 Band, Heft 1 (July, 1938), pp. 45-65; and "Eine neue Theorie des internationalen Handels," *ibid.*, 50 Band, Heft 2 (1939), pp. 308-28.

in the absence of special explanations of a historical or economico-geographic nature. The location of mines, mountains, rivers, ancient fortresses, etc., may explain satisfactorily special locations. Yet, even if the earth were a perfectly smooth sphere, cities would emerge, roads would be laid out in definite patterns and economic regions would come into existence. Purely economic factors will lead to a spatial order of the economy.

The keystone of Lösch's theoretical structure is presented in his Part II. The special interest of his solution lies precisely in the apparent lack of realism of his assumptions. It is easy to see why definite economic regions might appear when differentiating historical or geographic facts are given. It is not at all self-evident that a determinate pattern of locations should develop even if the earth were a homogeneous sphere. Nor is it clear what such a pattern would be. Yet Lösch demonstrates that a regular hexagon would be the ideal market form. Lösch summarizes his findings as follows: "We found first simple hexagonal market areas which surround every center of production and consumption. There is, secondly, a net of such market areas for each group of commodities; and, thirdly, we have a systematic order of these nets of the various commodities. This self-sufficient system is the ideal picture of an economic region proper. Such regions, finally, spread according to certain laws all over the world" (p. 90).

Since this is a significant result which gives precision to the concept of economic regions, it is of interest to show in some detail how this result is reached.

The assumptions under which Lösch derives this ideal market area are: (1) that industrial raw materials are distributed evenly in a homogeneous plain; (2) that population is evenly distributed and homogeneous; (3) "that all occupations and methods of production are open to everybody." By these assumptions all special factors are excluded and the effect of purely economic factors can be investigated. Under these conditions each producer is confronted with a falling demand curve. But this does not mean, as it does under conditions of monopolistic competition, that the individual producer has an influence over price. The falling demand curve indicates rather the amounts sold simultaneously at various prices in various places. Price is lowest at the factory and rises with increasing distance until the demand curve cuts the Y axis. Since the firm sells in all directions in a homogeneous plain, the total demand confronting it will be given by a cone which is generated when the demand curve is rotated around the price axis. The area over which the firm sells is given by the circle which forms the base of this cone.

As long as the firm makes profits the demand curve will be shifted to the left and the circle will become smaller. "This process which Chamberlin . . . has made familiar for product differentiation is also valid for differences in location" (p. 68). However, three circular market areas tangent to each other would still leave an unused space between them. Hence the circles will be squeezed into hexagons whose final size is determined by the equilibrium condition that no profits be made. If, on the other hand, the same demand were spread, not over a hexagonal market, but over a triangular or square market area, more land would be needed and the transport lines would be

longer. Hence the "honeycomb" is the most economical shape for the market area of the individual firm.[3]

The market area for each good is therefore a hexagon with a radius ρ of its inscribed circle. This radius is characteristic for the particular good and depends on the cost and demand curves. Since population is spread discontinuously even when it is evenly distributed it follows that ρ too cannot be a continuous variable. The problem now becomes the determination of the "influence of the original settlements on the location and size of market areas."

The table below and graph on page 629 have been reproduced to clarify the following discussion. Let *a* be the distance between the smallest settlements A_1, A_2, etc. Let *b* be the distance between the towns B_1, B_2, etc., which are the smallest towns in which industrial production will take place. ρ is expressed in cost of shipping, *b* in kilometers or miles. Let *nV* be the "greatest[4] distance to which a good has to be sold in order to make its production profitable" (p. 73).

The *nV* of the smallest market area around the settlement A_1 which coin-

THE TEN SMALLEST POSSIBLE ECONOMIC AREAS

Area	*n*	*b*	*nV*
1	3	$a\sqrt{3}$	a
2	4	$a\sqrt{4}$	a
3	7	$a\sqrt{7}$	a
4	9	$a\sqrt{9}$	$a\sqrt{3}$
5	12	$a\sqrt{12}$	2a
6	13	$a\sqrt{13}$	$a\sqrt{3}$
7	16	$a\sqrt{16}$	2a
8	19	$a\sqrt{19}$	2a
9	21	$a\sqrt{21}$	$a\sqrt{7}$
10	25	$a\sqrt{25}$	$a\sqrt{7}$

From: Lösch, *Räumliche Ordnung*, p. 76.

Legend — *n:* number of settlements which are fully supplied. The supplying town is included. Partially supplied towns are consolidated into whole towns.

b: distance of supplying towns = distance of the centers of the areas = diameter of the inscribed circle.

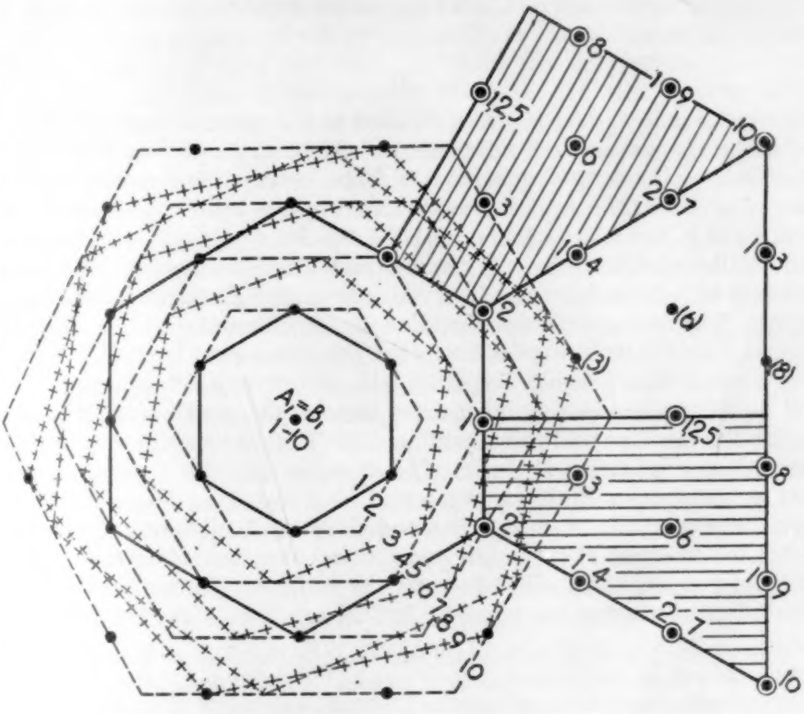
nV: "notwendige Versendungsweite" = distance from supplier to the farthest still necessary customer.

a: distance between the original settlements.

[3] These ideas are worked out in greater detail in "The Nature of Economic Regions," *South. Econ. Jour.*, Vol. V, pp. 71-78. See particularly the graphs presented there which are identical with some of the graphs in the *Räumliche Ordnung*. Here Dr. Lösch discusses also the consequences of the relation of his assumptions in great detail.

[4] There is an ambiguity in this formulation. *nV* should probably be the least distance, not the farthest, as the German expressly states.

cides with the small town B_1 is equal to a, the distance between the smallest settlements. But B_1 supplies fully only two settlements besides itself. For the next two larger areas, nV is still equal to a, but the areas are rotated around A_1 in such a way that each supplies partly or wholly seven settlements. The border of the second area will go through all six settlements immediately surrounding A_1, the border of the third area runs through open fields. (*Cf.* the accompanying graph.) From the table it appears that "the distance between two enterprises of the same kind is equal to the distance of the supplied settlements times the square root of their number" ($b = a\sqrt{n}$) (p. 75).



The ten smallest economic regions around $A_1 = B_1$.[a]

[a] "Sectors with many towns are hatched. Alternative centers are bracketed. The original settlements are indicated by simple points. The encircled points are centers of market areas." Lösch, *Räumliche Ordnung*, p. 75.

The various nets for the different commodities will have at least one point in common. Here a metropolis will arise. Then "the nets are turned around this center in such a way that we get six sectors with many, and six with few locations of production. When ordered in this way, the number of locations coinciding in one place is greatest. . . . The sum of the minimum distances of the industrial locations is smallest, and therefore not only transport [cost]

but also transport lines are minimized" (p. 81). The facts conform to the theoretical expectations to a surprising degree.[5]

Lösch's approach explains among other things the distribution of small and large towns, the average distance between small towns being less than that for larger towns.[6] It explains further the behavior of prices in space which is of special interest to the theory of international trade. The metropolis will have the lowest prices; with increasing distance from this center prices will first rise, then fall and then rise again. For this reason Lösch objects to the use of a price level for the country as a whole. "The dispersion around such a mean is too great" (p. 83). It would be difficult to quarrel with this conclusion. The significance of Lösch's approach for the purchasing power parity theory is obvious.[7]

II

Before examining critically Lösch's ideas on the nature of economic regions, I shall briefly summarize his discussion of the general equilibrium of location (Allgemeine Standortgleichungen) which he treats at the end of the first part of his book. He divides the problem of spatial equilibrium into (1) the location of industrial production; (2) the location of agricultural production; and (3) the relation of those locations to each other. His assumptions here are identical with the assumptions from which he derives the form of the economic regions. The first equilibrium condition is, then, that there be no abnormal profits. This condition implies first, that the area served by each individual firm is as *small* as possible. For, if the area served by it is too large, the firm will make profits, inducing other firms to enter the market and thereby reducing the area served by the existing firm. This process will stop with the competitive elimination of profits. The no-profit condition implies, secondly, that no areas exist which are not served by at least one firm. This follows from the assumption of competition and the even distribution of population. Hence the existence of untapped "corners" would either induce existing firms to expand or additional firms to enter the business. The borders of the individual market areas are given by indifference lines such that price f.o.b.

[5] Compare the picture for Indianapolis reproduced in the *Southern Economic Journal*. Lösch gives a similar picture for Toledo in his book. It is no objection that both cities lie in a plain with characteristics favorable to Lösch's theory.

[6] Compare the frequency distributions for the distances of towns of 300-1,000, 1,000-4,000, and 4,000-20,000 inhabitants in Iowa given in the *Southern Economic Journal*. At a later point in his book Lösch compares his results with those reached by Singer with which they agree. (H. W. Singer, "The 'Courbes des Populations', A Parallel to Pareto's Law," *Econ. Jour.*, Vol. XLVI [June, 1936], pp. 254-63.) Lösch concludes that "distances increase with the size of towns, that for each size a characteristic distance exists which can be described by a frequency curve" (p. 287).

[7] The rest of this section is filled with a detailed elaboration of the principles outlined, discussing such problems as price differences, dumping, freight rate changes, political frontiers and effects of their changes. Lösch concludes that a decrease in freight rates will increase the possible economic area over which a firm will sell, but that it will probably *decrease* the actual one. His discussion of boundary phenomena, though highly original and significant, was excluded from consideration here as a comparatively minor point.

plus freight rate times distance is the same for a particular consumer no matter from which neighboring factory he buys. *Mutatis mutandis* the same equations are valid for the locations of consumption. The best locations for consumers and for producers are different. "The best location of industrial production and consumption would be a giant city; the best location of the production and consumption of agricultural commodities would be an even distribution [in the plain]" (p. 62).

Lösch concludes therefore that competition will maximize the total number of independents, and that the condition of maximum profits, which under pure competition equal zero profits, is practically equivalent to the other condition that total demand be maximized. This presumably means that, with the location pattern defined by the equilibrium conditions, total satisfied demand would be greater than with any other location pattern. It is presumably the general way of saying that a hexagon is the most efficient market area. From the reasoning it can be seen that these conditions are not additional to the no-profit condition but are rather the spatial implications of the equilibrium conditions ordinarily discussed in non-spatial economics.

Yet "the maximization of the total number of independents" does not seem to be a particularly happy concept. The maximum number of firms is simply equivalent to that number of firms which will eliminate profits. But this number is not determinate. If constant cost at the location of the firm is assumed, there will perhaps be a maximum size to the firm since the price of the product rises, and sales fall, with increasing distance from the location of production. On the other hand, there would be no minimum size under these conditions. The maximum number of firms seems to remain an unclear concept.

Neither do spatial considerations remove the difficulties which beset Chamberlin's tangency solution under conditions of monopolistic competition.[8] Lösch mentions these difficulties in one place without, however, recognizing their ramifications. Yet these difficulties have to be considered in a theoretical structure which depends entirely on this very tangency solution.

The same difficulties arise in a somewhat different form when Lösch's impressive structure of hexagons, nets of hexagons, and economic regions is considered. The validity of his theory rests on his ability to determine successfully the size of the original hexagons. When constant cost at the location is assumed, the same objections are valid which have just been raised in connection with the maximization of the number of independents. Under such conditions there is nothing which can prevent the demand curve from being shifted to the left indefinitely.

But the difficulties do not disappear altogether even when the assumption of constant cost is dropped, and even if it is assumed that firms producing a

[8] See R. Triffin, *Monopolistic Competition and General Equilibrium Theory* (Cambridge, Harvard Univ. Press, 1940), pp. 78 *ff*. Also Professor Chamberlin's discussion with N. Kaldor: E. H. Chamberlin, "Monopolistic or Imperfect Competition?" *Quart. Jour. of Econ.*, Vol. LI (Aug. 1937), pp. 557-80; N. Kaldor, "Professor Chamberlin on Monopolistic and Imperfect Competition," *Quart. Jour. of Econ.*, Vol. LII (May, 1938), pp. 513-29; E. H. Chamberlin, "Reply," *Quart. Jour. of Econ.*, Vol. LII (May, 1938), pp. 530-38.

particular commodity have a determinate optimum size. In his argument, Lösch approaches equilibrium from a situation in which there are too few firms. In this situation more and more firms, located between the already existing firms, will enter the market until profits are eliminated. Assume, however, that equilibrium is approached from the opposite situation in which we have too many firms, all of optimum size, whose market areas overlap. Then there exists no way of determining which of the firms will be eliminated.

The difficulty really seems to be that, while the pattern of locations itself and the relation of the market areas to each other is determinate, the location of the whole pattern in the plain remains indeterminate. Like Archimedes, who needed a fixed point to stand on to raise the world, Lösch needs one fixed location around which the pattern of hexagons and nets of hexagons can develop. *One* original location has to be given, and Lösch does not indicate how it can be found. Accident, or historical or geographic facts might determine this original location of production. In the absence of such factors it is difficult to see what the exact position of the hexagonal pattern in the plain will be, exactly which point all the various nets of hexagons will have in common, exactly where the metropolis will arise.[9]

III

Of the many problems which Lösch discusses in his third main division, I shall consider here only what he has to say, first, about the theory of comparative cost, and, second, about the transfer problem.

Comparative cost. The principle of comparative cost can, according to Lösch, be applied only to the choice of an occupation by an individual. For reasons of exposition, Lösch nevertheless starts with two countries. His solution for more than two commodities is the same as that given by Haberler.[10] Unfortunately, Lösch does not state simply that the dividing line between the goods which will be imported and those which will be exported will be determined by reciprocal demand or the equilibration of the balance of payments. He talks of a "principle of the *fair* balancing of the balance of payments" (p. 148, my italics). What is meant by this remains unclear despite a reference to a later page. Lösch may simply mean "automatic." When the two trading parties belong to the same currency system the loss of purchasing power by the one is automatically the gain of the other. Not so when there is a difference in the currency systems. "Only with different currency systems is the principle of the fair balancing of the balance of payments an ordering force" (p. 200). Despite this principle, Lösch's first result is no different from that reached by Haberler, Ohlin, or Viner: "The principle of comparative cost is valid between two countries; but a comparison of costs between only those two countries is insufficient to determine in which direction and with what probability [*sic!*] they will trade with each other. The exchange rate and the

[9] This comment is intended less as a criticism of Lösch's theory than as a reminder of the limitations of any location theory.

[10] G. Haberler, *The Theory of International Trade* (London, Hodge, 1936), p. 138.

other countries interrupt the system in such a way that we can say *a priori* only that the order of the goods according to their advantage may be pierced [durchlöchert] but not changed" (p. 150).

Lösch's main criticisms of the comparative cost theory is that the classical theory has treated countries as points with no extension, or at best as small islands. As Lösch's analysis shows, there will be considerable differences of cost and demand conditions within a country. Therefore, Lösch concludes that "absolute prices and comparative advantages will be everywhere different" (p. 165). Furthermore, price movements vary locally and have little respect for national boundaries. Consequently, the same commodity may be imported and exported in the same country. From the equilibrium condition that the number of independents be maximized, it follows, furthermore, that a good will be produced in as many locations as possible.

Lösch's first criticism that the comparative cost theory has neglected spatial extension must be accepted. But it is difficult to see why this is such a devastating criticism as Lösch implies. Haberler has shown that the classical approach and Ohlin's approach are reconcilable. The neo-classical formulation of Ohlin and Haberler and that of Lösch are similarly reconcilable with each other. Fetter, Haberler and Viner, to name only a few, have always insisted on such facts as that commodities may be simultaneously imported and exported, and that a whole range of commodities may be traded only domestically. Ohlin's whole attempt to substitute economic regions for countries lies in the same direction as Lösch's. The contribution of Lösch lies, I believe, mainly in a more precise and meaningful formulation of the concept of economic regions.

This point can be made clearer by reproducing a criticism specifically directed at Ohlin: "According to Ohlin, a country will specialize in such goods in the production of which factors of production are used which are relatively abundant. But the regionally different scarcity of factors is neither a necessary nor a sufficient condition for trade, as can be seen from our model of economic regions, in which trade will occur in spite of an even distribution of productive factors. . . . Ohlin overemphasizes the supply side in a one-sided manner as if the demand side were less important" (p. 166).

This, I believe, is an unintended misrepresentation of Ohlin's position and, in general, of the most recent formulations of the theory of international trade. In fact, neither has neglected the demand side. I refer to Leontief's article[11] in which he shows that even with the same substitution curves, trade between two countries will occur if the indifference maps are different, and *vice versa*, that different substitution curves may be offset by the shape of the indifference maps.

Furthermore, "relative scarcity of factors" has at least two different meanings: scarcity relative to demand, and scarcity relative to the factor proportions in the other countries. The valid objection that it is difficult if not impossible to tell which factors are relatively scarce when more than two

[11] W. W. Leontief, "The Use of Indifference Curves in International Trade," *Quart. Jour. of Econ.*, Vol. XLVII (May, 1933), pp. 493-503.

factors are assumed[12] is not raised by Lösch. Ohlin also points out that large scale production and historical accident may determine the production of a region which otherwise has no special advantage. At most, Ohlin may be accused of assuming his regions while Lösch derives them.[13] When all these points are considered, it seems fair to say that Lösch has provided in his general location theory a much more subtle and powerful solution. His theory is, however, despite his disavowals a legitimate offspring of a proud ancestry from Ricardo downward. But then, as Professor Schumpeter has often remarked, it is a matter of taste whether one speaks of a refutation of a theory or of its correct formulation.

The transfer problem. The first point which Lösch works out in detail is that when purchasing power is transferred from person to person, or from place to place, the effect will not be simple price level changes or shifts in the demand curves. The paying and the receiving localities will become centers of price waves which will propagate themselves in all directions with diminishing intensity. In the receiving place prices will rise; hence money will be spent outside of it where prices will be affected to a smaller degree. *Mutatis mutandis* the same will happen in the paying center. These price waves are, in a sense, the spatial counterpart of the diminishing rounds of a dynamic multiplier, from which they have, however, to be distinguished. The price waves will advance with diminishing intensity, first, because purchases tend to fall with increasing distance and, hence, prices will be less and less affected; and, second, because the change in purchasing power will be increasingly absorbed with each further transaction. "The area of the districts between which the real transfer will take place does not coincide completely with the regions in which purchasing power has decreased or increased. . . . *The real transfer takes place between sub-regions* [Teilgebieten] *of the area in which purchasing power has fallen and sub-regions of the area in which it has risen*" (p. 182; italics in the original).

In the real world, the price waves need not propagate themselves smoothly and continuously. Jumps may and will occur when, for example, goods wanted cannot be procured except at a distance. This modification of Lösch's scheme is, however, easily made, although he himself does not consider the problem.

When two currencies are assumed and credit creation occurs, the transfer will occur according to Lösch in the following steps: First, there will be a temporary transfer consisting of (a) the original price change due to the shift of purchasing power, (b) an additional price change due to credit creation, (c) an immediate partial transfer in goods, and (d) an "early total transfer." Second, since the price waves which started at the paying and receiving center are still under way, there will be a "final" transfer

[12] See J. R. Hicks, "Distribution and Economic Progress: A Revised Version," *Rev. of Econ. Stud.*, Vol. IV (Oct., 1936), pp. 1-12. Also W. F. Stolper and P. A. Samuelson, "Protection and Real Wages," *Rev. of Econ. Stud.*, Vol. IX (Nov., 1941), pp. 58-73.

[13] "In reality, little more than words were changed: interregional trade was added to international trade. What was true for a country was now also valid for the region. But the structure of such an economic region was not investigated" (p. 65).

when these price waves meet. And, third, there will be a "kickback" (Rückstoss) since the transfer would otherwise occur twice. I omit Lösch's discussion of the effects of differences of the currency systems.

The difference between Lösch's and the more usual view is, according to Lösch, that the older transfer theories, whether of the Keynesian or Ohlin type, confused the temporary with the final transfer. "For the final transfer the shift in purchasing power is indeed sufficient though it will as a rule lead to a first price change even when the creditors buy exactly what the debtors would otherwise have bought" (p. 201). And "Even when the general price level changes, the international transfer takes place near the border. The intra-national transfer between the border region and the interior has to be added" (p. 202).

Lösch's discussion of the transfer problem is unfortunately not always clear. The difference between the "early total transfer" and the "final transfer" remains unclear in the short paragraphs which Lösch devotes to their discussion. The exact difference between the "total transfer" and the kickback is even less clear. Lösch's position seems again to be essentially a more subtle formulation of the Ricardian approach. Like Ricardo, according to whom gold will return to the paying country after it has made the real transfer of a unique capital movement possible, Lösch has a kickback in his example in a form similar to Ricardo's. Part of the kickback will be in gold, part in commodities. As with Ricardo, it is the final transfer which is essential, while the temporary transfer (in gold) and the kickback (the return of the gold) are merely technical complications of developed monetary systems. The significance of Lösch's contribution lies rather in showing that even a general fall in the price level, say, through a raising of the discount rate, will lead to a transfer first at the border region, and gradually to a readjustment throughout a larger area. "Since the central bank cannot wait until the wave of purchasing power reaches the border, it anticipates the relevant effects by changes in the discount rate. These effects are in both cases identical: as a rule goods flow from the border regions of one country into those of the other" (p. 201). The direction of the intra-national transfer itself is from the border region into the interior.

Lösch's reasoning can be equally applied to the case of reparation payments and to that of capital movements in general. In the case of reparation payments which are collected by a tax, the whole country would be deprived of purchasing power more or less evenly. Nevertheless the receiver would tend to spend the money nearest his place of consumption, *i.e.*, as near the border as possible. This would tend to raise prices there and would originate price waves which would then move into the interior with diminishing intensity. The same would hold in the case of capital movements financed by credit creation. It is possible in all cases that prices within the same country move in opposite directions.

IV

The main contribution of Lösch's book—and it is a significant one—lies in its detailed examination of the location problem and its application to

the theory of international trade. In this, Lösch is a subtle and powerful analyst, and it is to be hoped that his contributions will be made available in English in the not too distant future. It is harder to admit that his contributions are in such striking contrast to everything which up till now has gone under the heading of international trade theory. His attacks are at times unjust and rest here and there on misunderstandings. His agnostic attitude toward both utility and indifference analysis has unfortunately lead him to avoid explicitly the classical problem of the gain from trade as insoluble. But neither his unjust attacks, nor his expressed liking for Hegelian philosophy, nor other hardly relevant statements of a philosophical nature[14] for which this reviewer has no use, touch the core of his contributions. His philosophical statements are apt to irritate the reader and to draw his attention away from the main arguments. Even with all these shortcomings the book deserves a place on a shelf with Taussig, Haberler, Ohlin, and Viner.

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Studies in the National Income, 1924-1938. Edited by A. L. BOWLEY. Nat. Inst. of Econ. and Soc. Research. Econ. and soc. stud. I. (Cambridge: Univ. Press. New York: Macmillan. 1942. Pp. ix, 255. $3.50.)

A thorough-going study of national income would provide, to begin with, an estimate of the value of the economy's end-product by means of all available methods. The aggregate would be obtained by the summation of production or of expenditures, by the combination of income payments or of income receipts; and these various estimates of the national product would be compared and reconciled as well as possible with one another and with corresponding estimates prepared by other statisticians.

Significant breakdowns of the aggregate also would be prepared in a complete description of the national product. Each of the estimates would be made to yield a valuable set of components: the production data would be classified, for example, by industry—farming, manufacturing, service, etc.; the statistics on income payments would show separately wages, salaries, rents, interest, and so on; income receipts would be distributed by size of income; expenditures would be classified by character of goods purchased—food, clothing, durable goods, services. And all the various quantities, aggregates and sub-aggregates, would be expressed as far as possible both in monetary terms and in physical terms, would be given for a reasonable long series of time-periods, and would be accompanied by margins of error.

Such a comprehensive and articulated structure of quantitative estimates, the first goal of every organization working in the field of national income, has not yet been reached in any country. The National Institute of Economic and Social Research has been able to take only a step toward it in this report on the British national income for the period 1924-1938.

[14] For example: "It is impossible to understand fully the Swabian economy without an understanding of Swabian philosophy" (p. 125). Examples could be multiplied.

The volume, edited and largely written by Professor Bowley, presents an interim report on a large investigation conducted under his direction at the Institute. It is the result of the labors not only of Bowley but also of Messrs. Booker, Campion, Devons, Elsas and Neuman and of Misses Dessauer and Marley, at the Institute; and draws upon the published work of other British statisticians, notably Flux, Feavearyear, Rhodes, Stamp and Stone. Like many other scientific investigations, the study was interrupted by the war. The present report is therefore unfinished and consists essentially of a series of more or less rough notes (some previously published), put together by Bowley in amazingly little space, on some of the main aspects of the study. The text bears the marks of haste. It is hard reading.

Only the close reader will be able to detect the outlines of the structure the National Institute was in the process of building; but all will appreciate Professor Bowley's courage in publishing the report at the present time, uneven and incomplete as it is. Anyone interested in economic trends in Britain during 1924-1938 will find this report useful. And the student will find something to learn—and something to quarrel with—in the elaboration of methods, the dexterous statistical manipulations, and the frank discussion of discrepancies and probable errors.

The primary estimates of national income offered in the volume are derived essentially by a combination of the payments and receipts methods, following very closely the procedure worked out by Bowley and Stamp in *The National Income, 1924* (1927). The main categories include incomes reported to the income-tax authorities (£2,194 million in 1924), wages and earnings below the exemption limit of £150 per annum (£1,790 million), small and other exempt property-income (£135 million), and pensions, employers' contributions and sundry incomes (£154 million), yielding a grand total (called "aggregate income" in the 1927 report of Bowley and Stamp) of £4,273 million. From this are subtracted transfers; namely, income due to foreigners and national debt interest, leaving £3,887 million as the national income in 1924.

This figure is compared with the original Bowley-Stamp estimate for 1924; and the corresponding 1938 figure, £4,362 million, with the official figure published in the well-known White Paper on the sources of war finance (Cmd. 6261). The differences (less than 2 per cent in both cases) are found to be partly due to definition and partly to different judgments where the data are incomplete. Comparisons are further made with Flux's measure of 1924 national income based on the summation of production (the "Census of Production Method," in Bowley's terminology), and Feavearyear's estimate of national expenditure in 1924-27. The differences are somewhat greater, but when appropriate adjustments are made for definition, the various methods of approach give results which agree within 5 per cent of one another.

Owing to the dearth of British statistics, the national income aggregates, as well as the alternative estimates with which they are compared, include some categories the figures for which are very rough. Indeed, a considerable amount of plain guessing is needed to fill in some of the categories and thus arrive at the desired totals. The items specially subject to revision, for this and other

reasons, are indicated in the tables. These items add up to £644 million in 1924, equal to one-sixth of the national income total. Naturally, no details as to components of these categories can be given. But very little in the way of breakdowns is given even for the major categories.

Thus, the industrial distribution of wages and salaries is presented for 1931 alone, while no industrial breakdown is given for property income. Except for the indexes of output and related quantities for three Census years (discussed below), there is nothing at all comparable with the detailed industrial distributions to which American readers have become accustomed. One reason is, again, lack of statistics such as are available in this country, and presumably lack of time in which to utilize what does exist. Perhaps another explanation may simply be lack of interest in the breakdowns.

Indexes of output and related indexes of productivity, prices, etc., are derived from Census data for mining, construction, public utilities and manufacturing, for 1924, 1930 and 1935. The preparation and discussion of these indexes will interest American readers familiar with Professor Mills's use of the Census of Manufactures in this country to measure these variables. The results obtained by application of the Paasche as compared with the Laspeyres formula, the differences attendant upon alternative assumptions concerning "coverage adjustments," contrasts between indexes computed with gross value weights and with "value added" weights, comparisons of indexes of prices derived from the Censuses and indexes based on quoted market prices—these comparisons are presented and discussed at some length.

It is interesting to note, for example, that an index derived from the Census shows a drop of 32 per cent in material prices between 1924 and 1935, while the Board of Trade index indicates a fall of 37 per cent, and the *Statist* index, one of 39 per cent. The index of physical output for 1935 (1930 = 100), derived by methods varying in the several respects mentioned, ranges from 114 to 123, and Bowley accepts 119 as the probable figure.

The most interesting discussion centers about the direct derivation of an index of the real national income for 1924-1938. An index of the real national income may be obtained directly by one of two methods: (1) Indexes of the physical volume of goods and services delivered to or used by ultimate consumers, and indexes of the increment in the nation's capital stock (including some "physical" measure of the net balance of international indebtedness), may be combined, using as the weights the value of each component in the chosen weight-base period. (2) As an alternative, indexes of the net physical output of each industry (including government, trade, etc.) may be combined using as the weights the net value added by each industry.

Bowley's method is ostensibly the former, though the figures and categories he actually employs are more closely related to the latter method. For his index is prepared by combining an annual index of physical output computed for what amounts to the Census industrial area, with corresponding indexes, of lesser reliability, for agriculture, government, housing, services, etc., each weighted by the net value added in the area to which the index relates. The increasing advantage derived from foreign trade, measured by an index of the

terms of trade (the ratio of export to import prices), is also given weight in the computation of the index of real national income; and account is taken as well of the changing importance of goods subject to customs and excise taxes. The treatment of customs and excise takes up most of the space in the technical discussion, and involves some rather strong assumptions, but it has little effect on the results. On the other hand, the inclusion of changing terms of trade has an appreciable influence on the final index because the ratio of export to import prices rose some 20 per cent between 1924 and 1935, and because foreign trade is important in British industry.

Too much cannot be said for the index of real national income so derived. If the index is considered as reflecting the weighted average changes in the net physical output of various British industries (following the second method mentioned in the preceding paragraph), as it must be in view of its construction, it is defective on several counts. The indexes of output for "industry," agriculture, and government products are really indexes of gross physical output rather than net physical output (despite the use of "value added" weights in their construction). The index of the services rendered by real estate merely reflects changes in the number of dwelling-houses in existence. The error involved in failing to take account of factories, farms, service buildings, etc., is, I suppose, in a direction contrary to that noted in the preceding sentence, but these errors can hardly be said to offset one another.

As for the service industries (*i.e.,* all other than those already mentioned), which account for half the national income, the index of net output is simply the index of number of persons employed in them, with this number estimated by subtracting employment in other industries from total employment. (An arbitrary estimate of unemployment is also involved.) Finally, the index of the barter terms of trade does not, of course, reflect the changing price relations among the "invisible" portions of foreign trade.

Most of the deficiencies resulting from the use of these indexes are recognized and discussed by Bowley, and his final 1938 index (1924 = 100) is stated as 124 ± 6. Yet he considers the extreme limits to be improbable and the central figure of 124 to be a reasonable approximation. As a matter of fact, Bowley's direct measure of real national income agrees fairly well with one derived by deflating the British national income by the British cost of living index, as he shows. But this moderate agreement would appear to be more a matter of coincidence than a reflection of the accuracy of the two measures.

Since the purpose of the report was not to interpret the statistical results—that stage of the work was not reached—it is difficult to summarize the British economic trends revealed by it. I shall merely cite three indexes of change in Britain between 1924 and 1935. Physical output per worker (including administratives) rose 26 per cent in the industrial area covered by the Census; real earnings per wage-earner increased by 21 per cent in all industries combined; and real national income per capita gained 15 per cent. American labor productivity rose about as much as did the British. But the American record of real earnings per worker and real national income per capita, whether

one takes the period 1924-35 or the period ending with 1937, stands in sharp contrast to the British: the American series declined between 1924 and 1935, and barely kept their ground from 1925 to 1937.

The statistical portion of the volume is prefixed by an involved comparison of definitions of national income constructed or used by various writers and official bodies, and is suffixed by a lengthy bibliography of publications relating to national income. The chapter on definitions will do little more for the general reader than increase or decrease his respect for the expert. The bibliography is marred by many curious lapses; for example, none of the statisticians in the U. S. Department of Agriculture are cited among the writers on agricultural income in the United States. Useful complements, therefore, are the bibliographies compiled in the the U. S. Bureau of Agricultural Economics by Margaret Olcott, Louise Bercaw, and Helen Hennefrund, and at the U. S. Treasury by Isabella Diamond and Wanda Johnson.

The statistical report constitutes the main body of the volume, and of its inclusion in the British national product there can be no question.

SOLOMON FABRICANT

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Social Science Principles in the Light of Scientific Method; with Particular Reference to Modern Economic Thought. By JOSEPH MAYER. (Durham: Duke Univ. Press. 1941. Pp. xxii, 573. $4.00.)

This volume may be divided into three parts. The first is a brief running commentary on various writings on scientific methodology, especially the essays in Rice's *Methods in Social Science.* The second and major part is a criticism of classical and other theories of value. The final section is devoted to a presentation of "economic fundamentals" and "critical demonstrations." I shall concentrate attention on the criticisms of the theory of value, with only brief attention to the "fundamentals" and none to the brief methodological discussion.

At the outset it is not altogether clear which economic theories are "pseudo-scientific," Professor Mayer's favorite adjective. Apparently statistical and mathematical economics are good (pp. 88, 89) but classical and neoclassical economics are not (Preface, p. 131 n.), a distinction I do not understand since some of the doctrines he finds most defective were discovered or elaborated by mathematical economists. Several chapters are devoted to criticisms of the classical labor theory of value, and the general position is of course correct. But the critique is much less incisive, accurate, and comprehensive than the well-known studies of Cannan, A. C. Whitaker, and Knight, and many details are blatantly wrong (*e.g.*, "Land, as a factor, was sometimes mentioned, but its influence upon price was held to be nil under the assumed freely operating competitive conditions" [p. 109]). But it becomes reasonably clear (pp. 144*ff.*) that Mayer's real grievance is that most modern economists still cling to classical errors, albeit in more sophisticated forms.

His general position on the neoclassical theory of costs seems to be as follows: The concept of real costs will not serve, because there exists no common denominator of labor, waiting, monopoly, and other factors influencing

prices (which are to be explained by costs). If one waives certain objectionable implications of this position, the modern reply is to forget real costs and use the alternate cost theory. But this solution is not acceptable to Professor Mayer. Indeed he likens this theory to an intellectual shell game: if one seeks an explanation for the cost of wool in coats, it is the value of wool in blankets; if one goes to blankets and repeats the inquiry he is sent to rugs; and so on until he is back to coats (pp. 94-96). This circularity charge is obviously trivial: the various demands for products using wool, the technologies, and the supply functions of wool and other "factors" form a set of mutually determining conditions (equations) which lead to determinate prices.[1] This is well established and one has a right to expect Professor Mayer to meet the theory at the level at which it is advanced, not at the level of superficial miscomprehension.[2]

The theory of utility is in turn subjected to criticisms, only one sample of which will be mentioned here. Since no one would believe a paraphrase, quotation is necessary:

> If we eat oranges at the rate of one each breakfast, drink coffee at the rate of a cup a day, . . . there is, other things being equal, constant utility between [*sic*] the successive units thus consumed. . . . A uniform rate of consumption spells more or less constant utility. . . .
>
> What, then, becomes of the so-called law of diminishing utility or desire? For one thing, it is certainly far from being the normal situation in actual economic behavior. The utility curve may be either positive or negative in slope, or probably more often, it is zero in slope . . . (pp. 161 *f*.).
>
> . . . demand schedules, which are virtually always negative in slope [*sic*], cannot be derived from utility schedules, which, as we have seen, are more often zero in slope . . . (p. 164).

If a person with unchanging tastes derives satisfaction at a constant rate with respect to time, he will derive satisfaction at a constant rate with respect to quantity! I confess also some impatience with a lengthy discussion of utility in which there is absolutely no evidence of knowledge of the advances and issues in the enormous modern literature on indifference curves.

The "fundamentals" are a description of our economy and its development. The very condensed historical sketch leads up to such a conclusion as that "despite vast political, technological, and industrial changes, the economic lot of the masses has not been correspondingly bettered, nor has the scholastic rationalization of feudal controls been substantially altered" (p. 379) and "scientific advance has raised the standard of living for all and under democracy has increased the personal freedom and political power of the people" (p. 380). Cleo is indeed ambiguous. Several chapters review data on the distribution of income, capital formation, and similar topics. The choice of the Brookings income distribution rather than that of the National Resources Committee (which is not mentioned) calls for explanation. (Statisticians, by

[1] Classical demonstrations are to be found in Walras's *Eléments*, Pareto's *Cours* or *Manuèl*, the mathematical appendix to Marshall's *Principles*, etc. Simple numerical illustrations are given in my *Theory of Competitive Price*, pp. 103 *f*., 191 *ff*.

[2] He "completes the exposure" by lumping together all uses of wool and then asking for alternative uses (p. 95). Obviously there are none, but neither are there any costs: wool-using industries do not have to bid against industries which do not bid.

the way, will appreciate the suggestion: " 'Employed income recipients' might be a more accurate designation for the 'gainful workers' of the census classification" [p. 379 n.].) Factual statements are often incorrect: per capita national income in 1933 was not 23 per cent less than in 1900 (p. 398); all rents, profits, etc., do not accrue to the upper 20 per cent of income recipients (p. 399); "upward of 40 unproductive billions of actual savings" were not required to finance the stock market boom in the nineteen-twenties (p. 413); etc.

Armed with his theory and statistics, in the last section Professor Mayer indicates how they "may be applied to current attempts at solving important modern economic problems" (p. 439). In practice this amounts to a 20-page rejoinder to A. F. Burns's brilliant criticism of the Brookings studies and about 55 pages on various reviewers' reactions to Keynes's *General Theory* interspersed with the author's opinions. Professor Burns probably remains unconvinced, as I did, by the defense in terms of unargued denials and of the philosophy that, where we are uncertain, the Brookings figures should be accepted. On the other hand, Dr. Moulton may not welcome a defender who disclaims any practical significance for the study. On the whole Professor Mayer is favorable to Keynes because of the latter's criticisms of the classical economics, but exceptions are taken to the treatments of consumption, wage units (with algebra, pp. 497 *ff.*), and other points, on a level consonant with the remainder of the book.

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Economic Analysis and Public Policy. By MARY JEAN BOWMAN and GEORGE LELAND BACH. (New York: Prentice-Hall. 1943. Pp. xix, 935. $4.50.)

The appearance of another text for the principles course has not ordinarily been an occasion either for much comment or much rejoicing. Volumes of this sort have been so numerous, and, for the most part, so conventional in organization and content as to evoke little response other than a despairing wish for something fresh and original in conception and execution. Those who believe in a substantial introductory course, emphasizing economic analysis and standing on a somewhat higher intellectual level than the ordinary "principles and problems" course, have been particularly limited in the choice of suitable texts. The most eligible volumes for a course of this type are those by Boulding and by Garver and Hansen, but although these are admirable in many respects, the reviewer has not found them pedagogically well adapted to the capacities of ordinary sophomores. For courses of the type just described, the volume by Bowman and Bach impresses the reviewer as being the most suitable of any that he has seen.

Part I, entitled "Laying the Foundations," includes, among others, chapters introducing the student to demand and demand schedules, the combination of the factors of production, the analysis of cost of production and the classification of types of market positions. The chapter on "Consumer Demand" contains a brief explanation of the downward slope of demand curves based upon indifference curve analysis which strikes the reviewer as

more intelligible to ordinary sophomores than any similar treatment which he has seen. Part II, on "The Equilibrium of the Firm," is a very careful, clear and complete development of the marginal analysis, both from the viewpoint of the hire of the factors of production and of the sale of the finished product. Part III deals with purely competitive market adjustments in both the long and short run, while Part IV provides a similar treatment of monopolistic and monopsonistic markets. The latter section concludes with a very good chapter entitled "A Philosophic Intrusion: Individualism and the Economy," which draws together the results and implications of the preceding analysis.

Parts V and VI on "Market Control and Public Policy in American Enterprise" and "Labor Organization and Labor Markets" are well done and are adequate in scope for a volume of this type. The long and quite satisfactory chapter entitled "Agriculture: A Case Study," although comprising the concluding section of the volume, might well be taken up in connection with the foregoing topics. These three sections are distinguished by a systematic effort to build the discussion of the topics in question upon the preceding analytical sections, while at the same time not losing sight of the precept that, rightly understood, economic theory is a tool of analysis rather than a description of reality.

Part VII, on the personal distribution of income, contains chapters on the statistical aspects of the subject, the sources of personal incomes and public policy with respect to income distribution. The reviewer would have liked to see a more extended treatment of the sources of incomes, including more of the material found in the traditional treatment of functional distribution. In the present volume, functional distribution is integrated with the discussion of value in the earlier sections, a treatment which is superior in many respects to the traditional separation of these topics, but it would have been well to relate the discussion of the sources of personal incomes more definitely to the earlier theoretical sections.

The remaining four sections deal, respectively, with money and banking, business cycles, public finance and international trade. The section on public finance is entirely adequate and is notable for the treatment of the incidence of various kinds of taxes. The other three sections, however, while good so far as they go, are much too brief and sketchy to give a good balance to the volume. The first seven sections dealing with the theory of value and related institutional material are given 576 pages, whereas money and banking are given approximately 75 pages, and business cycles and international trade each 50 pages. To treat these topics with a degree of thoroughness at all comparable to that given the theory of value in the earlier sections of the volume would require at least 250 or 300 additional pages. This would lengthen the work to about 1200 pages, or two average size volumes. The generally high quality of the present volume, especially of the portions dealing with the theory of value, leads the reviewer to hope that the authors can be prevailed upon ultimately to undertake the task of enlargement along the lines suggested.

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Economic History

The American Spirit: A Study of the Idea of Civilization in the United States. Vol. IV. *The Rise of American Civilization.* By CHARLES A. BEARD and MARY R. BEARD. (New York: Macmillan. 1942. Pp. 696. $5.00.)

As the values of democracy are put to the supreme test of war, there is more than ever an earnest call for a clear understanding of the course and prospects of the American society. This call the Beards have attempted to answer in *The American Spirit: A Study of the Idea of Civilization in the United States.* Their book is in effect a restatement of the thesis of the extremely popular *The Rise of American Civilization* (1927) and its supplement, *America in Midpassage* (1939). But where the earlier volumes dealt with the "outward aspects" of our history, this volume represents an effort to grasp the essential intellectual and moral spirit of the American civilization.

The key to this spirit is "the idea of civilization" which is peculiarly characteristic of America. And what is this "idea"? It is that Americans conceive their history as a continuing struggle "for individual and social perfection—for the good, the true, the beautiful"; that they are inherently and peculiarly devoted to the Christian principle of association and collectivism; and that they have the mission of clearing the path of progress for all men. In all these ways American history has been unique and will continue to be unique (pp. 672-73).

But what has prevented Americans from clearly grasping their true destiny? First, it was the unfortunate notion of individualism that sought to frustrate the material expression of the social principle; that is, great business and industry, trusts and combines. The efforts of the individualists were "immense, continuous, and dogged, but their historical course was marked by an endless chain of failures. For every device which populists could invent, corporate ingenuity was more than equal and from decade to decade the integration of corporate enterprise kept up its march into the unity of national economy" (p. 386).

Then it was the "foreign" spirit, the visiting writers who sneered at our civilization, the agents who exploited immigrant groups, the Americans that looked to Europe for inspiration. But above all, it was the influence of British individualist economics imported by the academicians. This abstract and "false" science has deflected the people from fully appreciating their own historic and peculiar conditions, and has tempted them to think in terms of empty universals such as "the economic man, land, capital, rent, interest, and labor." The academicians began to think of America as just another economic society. The "theoretical constructs" of the classical school "fitted into the world image of both communism and general internationalism. . . . Economic conditions, promoters of these ideas could say, are becoming the same all over the earth's surface and the proletarians or the whole people, as the case may be, are being made ready by this course of affairs for 'free' trade, for 'free and equal' access to raw materials, for the world society in which the nations are to be merged by unification or federation. . . . While

the abstractions of economics were useful for every type of internationalist propaganda, they were particularly serviceable to those internationalists who indulged in the . . . business of planning world orders for the American people to put into effect by their support, with arms if necessary." With detailed maps and charts of resources and goods, their distribution and allocation, "world planners could work out new patterns showing just how peoples and things were to be arranged to bring prosperity, the four freedoms, security, and peace to everybody, everywhere—peace to be maintained under policing if necessary" (pp. 543-47).

Although this view might appear to be novel and contrary to the position of the authors as generally understood, it is in fact of a piece with all the work of Charles A. Beard from the very beginning. All his work has been inspired throughout by the great traditions of Hamilton, Webster, and Clay, the traditions of "the American System," with its hostility to the policies of a Jacksonian democracy. It is this that runs through the books that have established his fame.

Whereas his *An Economic Interpretation of the Constitution* (1913) was accepted as a radical social critique of the economic forces that wrote the Constitution, his *Supreme Court and the Constitution* (1912), written shortly before, made it amply clear that the author held these forces to represent the true interests of progress. He argued that it was the radical "populist" philosophy of Jefferson with his distrust of government that led to the establishment of the weak and inefficient instrument of government of the Articles of Confederation. "The solid, conservative, commercial and financial interests of the country . . . made desperate by the imbecilities of the Confederation and harried by state legislatures, roused themselves from their lethargy, drew together in a mighty effort to establish a government . . . strong enough to pay the national debt, regulate interstate and foreign commerce, provide for national defense, prevent fluctuations in the currency created by paper emissions, and control the propensities of legislative majorities to attack private rights."

The proper view of our government, added Professor Beard, was that presented in Joseph Choate's "moving argument" that the Supreme Court void the income tax acts: "The preservation of the rights of private property . . . was the very keystone of the arch upon which all civilized government rests, and . . . this once abandoned, everything was at stake and danger. . . . If it be true . . . that a mighty army of sixty millions is likely to be incensed by this decision, it is the more vital to the future welfare of this country, that this court again . . . courageously declare, as Marshall did, that it has the power to set aside an act of Congress violative of the Constitution, and that it will not hesitate in executing that power, no matter what the threatened consequences of popular or populistic wrath may be" (pp. 75-76, 111-12).

In those early days of Wilson's "New Freedom" Professor Beard, resorting to a crude fatalistic materialism, denounced the "small fellows" who, through a nostalgic appeal to outworn Jeffersonianism, would stay the wheel of industrial and social progress; now he would check the internationalists,

the do-gooders, spokesmen for the Four Freedoms, the proletarians, as well as the small business men, all of whom he feels would destroy great enterprise and impoverish the American economy.

His present method is no longer an "economic determinism" but an apparently contrary doctrine—ethical and Christian socialism. The interesting thing is that the "new" development actually goes back to his student days. It will be recalled that Professor Beard with a fellow American founded Ruskin College for labor education at Oxford in 1899. The broad concept of "social justice" enables the Beards to claim as their own Jefferson, Paine, and other great names in the tradition of American democracy, which is not a mean advantage today.

Whereas, earlier, Beard approved large scale corporate enterprise on the ground of economic necessity, he justifies it in the present work also on the ground that its inherent associative operations are generating the social ethics that will cleanse it of evil. As a case in point, consider his admiration of the Hamiltonian "factory system" with its corporate enterprise and "paternalistic" managers. He presents a eulogy of the factory system through a selected set of quotations from the works of Carroll D. Wright. Is it true, as individualists assumed, that the factory system represented "aggregations of owners driven by the acquisitive instinct and locked in relentless competition against one another, and aggregations of individual workers fighting one another in ceaseless efforts to climb upward in the social scale?" Hardly, for according to Wright, "factories are . . . the legitimate outgrowth of the universal tendency to association which is inherent in our nature, and by the development of which every advance in human improvement and human happiness has been gained." Its incidental evils will be gradually overcome by its dynamic socializing principle. The growth of the ethics of industry itself will shorten and mitigate depressions. "With true men at the head of industrial enterprises, with a political economy which shall recognize the power of moral forces in the accumulation and distribution of wealth, modern productive industry will be . . . the most powerful element in civilization" (pp. 430-35).

Portraying more directly the underlying views of the Beards on the problems of labor and poverty are two obscure pamphlets of writers disinterred by the Beards. One was a treatise on slavery (*Inorganic Forces Ordained to Supersede Human Slavery,* 1860), by Thomas Ewbank, "a retired New York manufacturer." "Unlike politicians, essayists, and literary experts," write the Beards, Ewbank "brought to the subject an engineering mind alert to the social consequences of technology." According to Ewbank, moral suasion and penal statutes cannot remove slavery, because its roots extend to the "lowest depths of man's selfish nature. . . . As long as it is profitable, it will live. To kill it, something . . . cheaper must take its place." Only through the advance of technology and machinery could the problem be solved, for "wherever slavery is rendered commercially impossible by the superior economy and efficiency of inanimate forces," it will inevitably disappear.

According to the other pamphleteer, the Delaware journalist and school teacher Robert Coram (*Political Inquiries: to Which Is Added a Plan for the*

General Establishment of Schools Throughout the United States, 1790), society owes every individual the means of subsistence, to be supplied indirectly by the establishment of public schools to teach "the rudiments of the English language, writing, bookkeeping, mathematics, natural history, mechanics and husbandry," and of apprenticeship regulations by which "parents and others, having authority over children, should be compelled to bind them out, to certain trades or professions."

Finally, the protective tariff system rounds out the Beards' concept of "civilization"; hence the considerable attention paid in this book to the high protectionist Henry C. Carey and his followers. At the moment Carey appeared on the scene, "the supremacy of agriculture seemed to point to the predominance of provincialism. At the moment also, British classical economics, the ideology of the British manufacturing interests, reigned almost unchallenged over intellectuals in America who theorized on economic policies. But . . .Carey grappled with the issue of economic policy by starting with the proposition that American civilization was not British" and "rejected the simple role of provincial subordination for the United States."

According to Carey's "American" view, a high protective tariff, by concentrating production, yields an ever larger share of an ever increasing product, to the "laborers," who include the captains of industry. The tariff was to be reinforced, for competitive trade purposes, by eliminating the gold standard "devised in British interests" in favor of a "managed currency"; the aim being "the establishment of that monetary independence which results from maintaining absolute command over the machinery of exchange used within our borders, leaving to the gold dollar the performance of its duty of arranging the settlement of balances throughout the world." But "as American bankers, often with international connections, took over . . . the financing of American industry," Cary's idea of civilization in the United States, assert the Beards, "became correspondingly menacing and revolutionary to 'idealogues of the academies' " (pp. 216-17, 225).

The question naturally arises whether the Beards have indeed left behind the "materialism" they profess to deprecate. What becomes of the ethical ideals that explicitly inspire their new-found philosophy?

The truth seems to be that the Beards have never been concerned with historical movements as such, or with the scientific consideration of economic and social events. Rather they have been concerned with dominant personalities whose successful careers in "industry" and the professions, and public utterances in favor of "social ethics" make them fit for Ruskin's ideal of a "natural aristocracy" to manage the masses. Doubtless, the authors are unaware that their "American Political Economy," from its "historical" approach to its "managed currency," was presented over a century ago by Metternich's economic adviser, Adam Müller.

The basic difficulty with the works of the Beards is that they are not history but mere "tracts for the times."

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The Age of Enterprise: A Social History of Industrial America. By THOMAS C. COCHRAN and WILLIAM MILLER. (New York: Macmillan. 1942. Pp. x, 394. $3.50.)

This study of American industrial history pursues two cardinal lines of analysis: the cultural setting of industry in the United States, and the industrial setting of American culture. At a time when self-searching scrutiny of the ideas and purposes which activate our society is both academically and publicly important, the story of industry and business as the nuclear factors in American life acquires special significance. The industrial power of the United States is to our own government and people, and to millions throughout the world, the best assurance of victory and the source of hope for the future. The more clearly the principles on which this power operates are grasped, the better are the chances for fulfillment of its promise.

From the beginning, the development of our economic system has been accompanied by a chorus of opinion which is an integral part of the drama of American growth. Currently, however, it seems to this observer that much of the debate is "above pitch, out of tune, and off the hinges," and has lost touch with the realities which formed the starting point of controversy. The resulting sterility is especially evident in the character and assumptions of post-war plans which ignore the historical motivation of American economic behavior. Similarly, the recent disputes concerning "knowledge" of American history and the teaching methods and content of courses in school and college demonstrate on both sides of the argument a lack of understanding of the issues which have so greatly influenced American life, or lack of direct connection therewith. Meanwhile, American society continues to evolve on a totally different plane, in terms of concrete legal, technical, and financial policies having definite social consequences.

For this reason *The Age of Enterprise* is particularly useful as a preface to the understanding of present economic, political and social trends. It provides a mature and balanced account of the theory and practice of enterprise and of the relationship between government and business. A coherent description of the sequence of events requires coherent analysis of a sequence of ideas. It is in this respect that the work achieves novelty and stature. The informal, colorful style employed, the abundance of superior writing, and the variety and freshness of much of the source material all enhance the drama of the subject. With lucidity and with the detachment of geologists, the authors trace the strata of our industrial history to the surface of public policy. The fault and thrust of underlying economic pressures, the outcroppings of popular philosophy and politics are recorded with a scientific regard for proportion.

The principal thesis of *The Age of Enterprise* is that business standards, beliefs and purposes became the dominant factors in the development of distinctively American culture. In government, education, the press, "politics," entertainment, literature, general *mores*—from the highest levels of national policy to the smallest details of economic conduct—"business-like" attitudes have determined behavior. Conflicts, whether at the center of the system or on the periphery, whether on large issues or small, have been carried on within the

pattern and habits of thought of a business civilization. The changes that have occurred and the crises that have developed internally and externally arose and were decided in terms derived from a system of enterprise.

Obviously, this broad canvas, which the authors crowd with vivid detail, bears the stamp of an institutional approach. At its best this approach is a method of correlation which yields telling and forceful conclusions. Wielded by Thorstein Veblen, the method revealed the anatomy of history with surgical skill. It is not "interpretive" in the sense to which positive historians or economists object, nor is it a recitation of a calendar of events. The utility of the institutional technique is that it is neither a pointless summation nor an impressionist or doctrinaire device. The selection of data and its coördination are functional. As an institutional study the book is a polished performance and the product of a high order of research.

The considerations advanced in this book revolve around problems which are, if anything, more important today than in the past. The United States has been the land of enterprise, pursuing happiness, and placing its hopes of freedom as much in the market as in the ballot.

Instinctively, it has been the feeling of Americans that freedom is organic, politically and economically connected. The alliances of machine politics and monopoly, and the efforts of pressure groups, have time and again obscured and thwarted the expression of this fundamental impulse toward freedom, but never completely or permanently.

It is evident throughout the pages of *The Age of Enterprise* that the principal economic and political struggles of our history have pivoted upon the problems of monopoly and upon the industrial policies of government. A representative government, depending upon freedom of opportunity to stimulate economic expansion and development, has constantly been faced with the attempts of monopolistic interests to retain the privileges of private enterprise while restricting economic freedom. As Cochran and Miller state:

> Thus free competition became the keystone of the triumphal arch of American business philosophy, while monopolistic tendencies were ignored; science and mechanization became the grand avenues of progress while patent pools and social regimentation were obscured; thrift remained the first commandment in the decalogue of the new business society though conspicuous consumption was its sign of grace (p. 123).

That this conflict has been the continuing crux of the problem of industrial policy is demonstrated repeatedly. To choose a striking parallel, the problem of war potential and technological preparedness before 1914 and before Pearl Harbor have common elements. The statement made by the *Engineering News* in 1911 could very well have been made in 1941, concerning even larger sectors of industry:

> We are today something like five years behind Germany in iron and steel metallurgy, and such innovations as are being introduced by our iron and steel manufacturers are most of them merely following the lead set by foreigners years ago. . . . We believe the main cause is the wholesale consolidation which has taken place in American industry. A huge organization is too clumsy to take up the development of an original idea. With the market closely controlled and profits certain by following standard methods, those who control our trusts do not want the bother of developing anything new (p. 199).

The conclusions reached by the authors are indicated in the following excerpt:

> Industrial enterprise was most successful in creating a free society in America because America with its tremendous material heritage had the greatest capacity for growth. America had incomparable resources to develop, seemingly limitless space to accommodate large numbers of workers and consumers. Expansion was the keystone of business freedom. . . . Industrialists of their own accord entered into trade agreements, pools and trusts. Voluntarily they surrendered the right to manufacture as much as they pleased, to sell where they pleased, to charge what the traffic would bear. They agreed to partition markets, curtail production, maintain prices, withhold investments in costly technological improvements. So numerous were these limitations upon economic freedom by the twentieth century, so powerful had the agencies that imposed these limitations become, that the age of free industrial enterprise seemed to be waning (p. 354).

The timeliness, the contemporary relevance of the questions which have most troubled the "American dream" is an affirmation of the validity of vision embodied in the basic tenets of our political and economic life. At the same time, it is a recurrent warning. We can repeat, as the authors do, the words of Senator Sherman in 1890:

> They had monopolies and mortmains of old, but never before such giants as in our day. You must heed their appeal [the American people's] or be ready for the socialist, the communist, the nihilist. Society is now disturbed by forces never felt before. Congress alone can deal with the trusts, and if we are unwilling or unable there will soon be a trust for every production and a master to fix the price for every necessity of life (p. 171).

The urgency of this passage has been stressed by time. Our modern cartels cannot coexist with free enterprise and must in time undermine republican government. We must heed the danger or "be ready" for the surrender of enterprise in all avenues of life to the "managerial" philosophy of government and industry.

It is necessary, however, to enter a demurrer to certain conclusions which the authors favor. First, it is simply not true that "the costliness of competitive Laissez Faire [is] a defect of its qualities" (p. 138), or that in the long run competition is as wasteful as monopoly. Secondly, although stated in tentative fashion, the authors advance the view that "the age of enterprise" is over. It is the reviewer's belief that, in this country at least, the realization that "the age of enterprise is yet young" is the best surety of our future, and the strongest basis on which freedom can be built.

CHARLES A. WELSH

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Western Prices Before 1861: A Study of the Cincinnati Market. By THOMAS S. BERRY. Econ. stud. Vol. LXXIV. (Cambridge: Harvard Univ. Press. 1943. Pp. xxi, 645. $5.00.)

This book is an expansion of the author's chapter, "Wholesale Commodity Prices at Cincinnati and in the Ohio River Valley," in A. H. Cole's well-known collection, *Wholesale Commodity Prices in the United States, 1700-1861.* It is focused on Cincinnati, which early in the nineteenth century became

a manufacturing center and primary Ohio river port and for a while was to the Midwest what Chicago is today. Although Cincinnati is the focal point, there are numerous data relating to Louisville, Pittsburgh and Lexington, and Dr. Berry feels that "at least some of the most important conclusions may be extended to a good share of the West" (p. ix).

The period covered is from about 1790 to 1861. The individual commodity prices studied include all the city's chief articles of commerce and manufacture, such as hogs, bacon, pork, salt, wheat, corn, whisky, iron, cotton, molasses, sugar, coffee, and a wide variety of groceries. Also analyzed are steamboat freight rates for many of these products, insurance rates, discount rates on domestic bills, statistics on bank note circulation and discounts, deposits, and other credit data. The full charts and tables in the text and appendix constitute the outstanding contribution of this work and will serve as an invaluable reference aid to economic historians of the Midwest. Detailed and often lengthy analyses of each of these many charts, including even such minor staples as pepper and tea, make much of the book tedious reading.

The author states that the book is "essentially eclectic in its approach" (p. x), and that he has chosen what is most pertinent in economic history and geography, monetary history, business cycle theory and statistics. For example, Part I deals with transportation developments in the Ohio valley; Chapter VI explores weights and measures customs; Chapter X investigates one of our first "trusts," the salt monopoly; and Part III is concerned with cyclical disturbances and price behavior. Thus there is material of interest to students in several fields although it would seem that the author's chief interest lies in statistical measurement and business cycle study. The book is obviously the result of a tremendous amount of painstaking research and the author has endeavored not to overlook any facts or methods of approach that would throw light on the behavior of prices in this period. The lion's share of the material has been drawn from over fifty newspaper and serial publications, with *Liberty Hall* and the *Cincinnati Price Current* among the most frequently quoted. Also consulted for price data on early years were accounts of some forty firms found in historical libraries scattered from the east coast to Texas.

Dr. Berry's basic findings concerning western prices tend to confirm what has been previously found or assumed. For example, he has constructed two "weighted monthly index numbers of Cincinnati wholesale prices, 1816-60": Index A being made up of commodities identified with northern agriculture and Index B of other commodities, especially manufactured goods and imports. As might be expected, the agricultural index has an upward trend and the other index a downward slope. Transportation improvements are advanced as the chief explanation although the depreciated notes of the interior are said to be a factor part of the time. It is worth noting that "prices of industrial articles in the West a century ago were much more inflexible than those of farm products" (p. 285). No explanation is offered for this condition.

The author accepts the concept of an internal triangular trade which broke

down in the 1850's with the qualification that certain products went east instead of south sooner than others (pp. 22, 532). Also upstream steamboat rates eventually became cheaper than downstream ones (p. 42).

Easily the most interesting chapter is the one on the early salt monoplies. At intervals of about ten years from 1812 on salt producers formed monopolies to avoid the evils of overproduction and then a few years later somebody, dissatisfied with his quota, would break the monopoly and bring about a sharp decline in salt prices (p. 306). Thomas H. Benton is portrayed as somewhat of a "trust buster."

Dr. Berry has also unearthed some interesting facts on the discounting of bank notes. When a bank's notes reached a 30 per cent discount they quickly went off the market (p. 395). Debtors sometimes advertised for notes no longer current in order to pay their creditors (p. 404). Notes of the First and Second Banks of the United States often circulated at a premium over specie because of their greater ease of shipment (p. 540). Financially speaking, the almost unheard-of Crisis of 1854 hurt the West more than the Panic of 1857 (p. 541). Scattered throughout are many more such intriguing crumbs of information.

Errors seem few in number. The table on page 152 lacks a title. It is questionable whether paper money issues stabilized prices in the middle colonies (p. 366. See also *Jour. Pol. Econ.*, Vol. XLVII, p. 874, and Vol. XLIX, p. 303). It appears unjust to criticize the Second Bank's executives for failure to follow present-day monetary practices (p. 387). Mint price is incorrectly used when applied to subsidiary coinage (p. 490). In the bibliography inclusion of a page of bibliographical aids is superfluous (p. 599). But my chief criticism of this book is its length which results from an excess of detail at least a third of which could profitably be omitted. Without it a careful and valuable study would be more widely read, not just frequently referred to.

DONALD L. KEMMERER

University of Illinois

Economic Systems; National Economies; Post-War Planning

Social Institutions in an Era of World Upheaval. By HARRY ELMER BARNES. (New York: Prentice-Hall. 1942. Pp. xviii, 927. $5.35.)

Even with a generous allotment of space a review can hardly hope to do justice to a book of so encyclopedic character, packed with facts both fundamental and miscellaneous and crammed with the author's observations and with his many-faceted quotations. This is a book which one lays aside not only impressed with the vast reading of the author and with the sincerity and courage of his attack on the problems of modern civilization in its manifold aspects, but also enriched in valuable knowledge and interesting viewpoints. To our mind not the least important contribution of this work is that it challenges critical thought. Rational control over social processes

run wild, nationally and internationally, will not be restored by any one man's thought or work. A primary need is to raise issues and stir discussion. This the book does well in its parts devoted to modern life, even if we may not agree with many of the author's propositions, including, perhaps, his basic philosophical approach.

The work in a way blends two books into one. One phase of it consists of a general treatise on the institutional background and present equipment with which modern society faces its current crisis. Sociological, socio-psychological and historical approaches alternate in this discussion. Some of this material, which is often presented by way of short résumés from the works of leading specialists, seems a little dryly academic. While one can certainly have no quarrel with the author's proposal to learn from past historical experience, one might doubt whether in a work characterized by a highly rationalistic viewpoint the author is really in a position to use much material pertaining to the pre-scientific age. In fact, our impression is that some of this material remains dead. One historical lesson, however, is outstanding, and is frankly acknowledged by the author, though it contradicts in a way his basic philosophy, to wit, that it is very difficult to translate enlightenment from theory into rational action.

In strong contrast to the cool academic objectivity of those general discussions stand the very lively, often passionate, and more or less partisan discussions of issues pertaining to the current crisis of our civilization, particularly in its religious, political, legal, and economic aspects. The author probably would gainsay the statement that some of this discussion is partisan, as to him the findings of modern social science in what he considers their best thought have a finality similar to, if not identical with, the finality of experimentally and logically well-established results of natural science, and would consequently command one definite type of optimal action. We fear, however, that few social scientists will agree with him in that optimistic view on the achievements and on the possibilities of their disciplines.

Regardless of whether one consents to the rationalism, determinism (though this determinism is not consistent) and materialistic utilitarianism of the author, one will learn a great deal from the informed criticism he raises against many special aspects and institutions of the modern Western World, and will agree with him that this civilization has for some time shown alarming signs of decomposition. Yet, whether it is all a matter of cultural "lag," humanity not having caught up in its thinking and in its moral pattern and folklore with the necessities and possibilities of the science-created world of machinery, is another question. Also, one might object to the idea that man has to be adjusted in a perfect mechanical fit, as it were, to the mechanized environment which applied science has created for him, and might wonder whether this environment should not rather be constructed and administered to serve the fullness of all human capacities, including the rich spiritual and moral heritage of the pre-scientific age.

There seems too strong a tendency to consider everything which is not scientifically provable also as irrelevant, if not as unrealistic. It seems to us

that there is no scientific reason to follow the tendency of the author to deny the supreme reality of the spiritual, even if it is beyond scientific proof. By this we do not mean, however, to deny that the author is right in stating that much of traditional positive creed and also much of organized religion have suffered from the impact of the scientific age, and that our epoch, more than any other, has need for a restatement of the eternal truth in words which the contemporaries of the scientific age can hear and understand.

At any rate, we think that a good case can be made for the proposition that the notion of personal freedom, with its non-deterministic implications and its stress on individual responsibility, has been historically the core of what we have known as Western civilization. The departure of the author from the traditional concept and the past reality of Western civilization is more radical than his conservative terminology would suggest and than he himself is perhaps aware of. Proposing to use traditional terms such as "democracy" and "capitalism" to designate the future world of his vision, he tends to obliterate the fact that he rather proposes or, better, envisages a radical, if peaceful change to an entirely different type of civilization. His basic approach leads the author quite logically into the neighborhood (though not entirely into the camp) of socialistic reformers.

His very keen, and in many respects rather devastating, criticism of modern democratic institutions and their way of functioning leads to proposals for representation on the basis of a professional group vote and of an administration manned by scientifically trained experts or engineers. The technocrats are mentioned approvingly in this connection. One wonders whether the author fully recognizes the inevitable authoritarian implications of such proposals. If political life should be organized on such lines side by side with a competitive business system, it certainly would result in a free-for-all fight and, through that, in despotism. In fact, the author, though of course he strongly disagrees with the excesses of national socialism and fascism, seems relatively little impressed with the possibility that they might destroy civilization.

In his discussion the most essential question concerning the crisis remains unanswered, namely, how the admittedly unabated emotionalism of the masses and rational control by the (supposedly enlightened) few can be combined in a way which is at the same time rational, effective, and democratic. This question seems particularly hard to answer in a time of rapid dynamic changes in technology and economic life in which the enlightened few will have much cause and much temptation to try to club and to bamboozle the masses into following the prescriptions of the administrators.

The sharp indictment of the rôle of "the law" and the lawyers in modern capitalistic society and of the fatal denaturization of the concept and content of property in the hands of the Jurists is brilliantly presented. Here the author marshals the views of some famous witnesses, including the late Chief Justice Holmes, to support his own ideas. It should be remarked, however, that this discussion mostly fits the American, or, at best, the Anglo-Saxon scene, and not the whole of Western civilization; and even for those countries

one might wonder whether there is not a lighter side to such an essentially black picture.

The discussion of modern economics and its problems, even accepting the author's viewpoint, does not seem to us as stimulating and successful as other parts of the work.

There is a rather conventional discussion of the phases of evolution of industry. In the subsequent chapter on capitalism and the economic crisis, the description of "the historical background" (both antique and medieval) is a lively presentation of some interesting data which the author considers particularly relevant to subsequent events. The rest of the chapter leaves one with a mixed impression. The statement that early industrialists kept finance "subordinate" to industry is at least liable to misunderstanding. The claim that the current ascendancy of finance capitalism over producer capitalism is a major source of present evils, astonishes one in view of the marked loss of power of bankers and financiers over industry in the last decades. It does not differentiate between the problem of bankers and financiers *versus* industry and the problem of the large corporations, notably the management-ownership problem. In other places, the author puts more emphasis on monopolistic abuses as a cause of disturbances in the capitalistic system. Some economists, without denying the importance of this factor, might find this emphasis exaggerated, and the use of such slogans as "scarcity in the midst of plenty" not particularly enlightening. In general the discussion seems to suffer from an effort to rely on and to present too many different economic interpretations of the current crisis, and this results in the impression of heterogeneity of thought. In one instance, at least; *viz.*, in that of Keynes, the effort to combine brevity and broad coverage leads to an incorrect statement of the respective theory.

The author's own views seem to move between scolding condemnation of many, even essential, features of private capitalism and the effort to preserve it by reforming it. Rightly, we think, he foresees the necessity for more government intervention, yet he does not specifically discuss the various possible kinds of "planning" and political and economic problems which arise in that connection. In particular, little attention is given to the international aspect of a controlled economy. In general, the international side of the current crisis, in spite of some good *aperçus* in the chapter on war, seems to us somewhat neglected.

Chapters on social group problems, propaganda and communication, religion and morals, education, leisure, recreation and the arts contain a great wealth of interesting, if partly controversial, material. The work is concluded by thirty pages of selected references and an index.

HERBERT VON BECKERATH

Duke University

The Coming Age of World Control. By NICHOLAS DOMAN. (Harper. 1942. Pp. vii, 301. $3.00.)

Mr. Doman's instructive book is one of those studies which aim at out-

lining a future world organization, a new world order which should prevent future wars. Following the present trend toward a gradual integration of the world, this new order will be supernational, practically non-national. Mr. Doman emphasizes the necessity of separating nationalism and democracy; he considers the existence of national states and their policy as the main and decisive reason of wars. The economic approach to universal political problems is thought inadequate and, in general, the author does not attach any decisive importance to economics. According to him the Second World War "has dethroned king economics."

A new world order should be set up as a world state. "Democracy has to become universal or it will be outdistanced by other creeds." Mr. Doman claims that it is necessary to break with international organizations and proposes a supernational organization. The new world order must be "imposed not initiated by a democratic process" and "the deplacement of political authority from the nation state to the federal body must be complete with no original authority left to the component nation states."

The author is rather vague in outlining the suggested organization more definitely. The determination of the balance of power elements in the universal democracy should be based upon the size of the population, the degree of cultural development and affinity with the humanitarian, democratic, equalitarian civilization, the economic strength and potentiality, and finally the degree to which social institutions have been developed. An index calculated on this basis would probably give a decisive vote to the Western world and Russia. Mr. Doman is also not very precise on "the Riddle of the Orient," pointing out only that the inclusion of the Orient into the Universal Order is imperative, and that Asia is going to play a decisive rôle in the future world history.

A monopoly of physical force is expected to be the backbone of the world order with an interstage of a monopoly of the victors. Therefore, national police force has to submit to international police force. Mr. Doman is sure that "technical innovations have facilitated control by monopolistically organized forces." The monopoly of physical force should be supplemented by a control of key industries.

The new universal organization will be democratic; the author expects new clarifications of the democratic approach to political, social, and economic institutions but does not offer any clear definition of what he regards as democratic attitude. He recommends a non-national, non-economic transient elite for the supreme political authority, declaring that the fact of a transient position of this elite will preserve the democratic principles, which should represent the element of permanence in the coming world organization.

Even more sketchy and indefinite are Mr. Doman's ideas referring to economic questions. The new economy is to be "a centrally directed sane economy. . . . Economic functions must serve political objectives, control of economics by politics is indispensable," and the author expects that public control of economic activities in the international orbit might tend to inject more democracy into social life. I wish Mr. Doman had elaborated a little

more on this crucial point of relation between democracy and planned economy or even freedom. While he points out correctly that the dividing line between capitalism and socialism has been considerably narrowed, and sees a possibility of a capitalistic system of production without a capitalistic spirit, the reader cannot tell what all these notions mean to the author. The realization of his program demands full public control and direction of economic activities, "a comprehensive economic planning without which there cannot be political security." But, according to Mr. Doman, regulation of the factors of economic life does not imply that the whole structure of economics becomes subject to minute planning. Even free trade is of course not a necessary complement of the scheme. At the same time the author suggests that eventually "a political authority will decide on the policy to be applied to the problems of production and distribution." And what should be the objectives of such universal planning administered according to democratic principles? Generally it is "the attainment of the best results that are technically available," emphasis being laid upon escape from economic insecurity. For that reason "man's sense of liberty has to be reinterpreted in terms of new social and economic atmosphere, such liberty not being incompatible with the control of economic and social forces." The task of world-wide planning is the incorporation of the objectives of political freedom and economic security. "With a greater control of our economic structure and social environment we shall be able to enjoy a more democratic atmosphere." As so many students of social science are, the author seems much impressed by the achievements of an organized war economy though at the same time he sees the differences between the objectives of planning in wartime and peacetime.

However, priority of political power, complete control over economic forces and economic security are the author's aims in the field of economics. In spite of the fact that he speaks of freedom and democracy, and refuses collectivism and labor supremacy, it is certainly not easy to visualize a new economic order which would fit into his general program. It is the more difficult because Mr. Doman repeatedly stresses the necessity of reinterpretation of such basic concepts as freedom, democracy, capitalism, and economic security so that the reviewer does not feel sure whether a free and democratic order envisaged by Mr. Doman will be the same as that understood by perhaps a majority of economists. The author certaintly has no great faith in the force of dynamic development; the reviewer sometimes gets the impression that in the field of economics the new organization adjusted to the present stage of economic development would perhaps in its basic ideas not differ so much from the medieval Catholic church social policy of economic security accompanied by a static economic system.

Perhaps a dealing with some of the chief problems in more detail could have clarified the basic issues. The whole plan is very ambitious, reaching utopian proportions. The author's contribution is certainly more important in his sometimes original analysis of the past and present main currents and in stimulating a real and thorough examination of the problem in its totality than in advancing a plan for a practicable solution.

There is general agreement that an international police force, monetary authority, and credit and development institutions will be on the agenda of an international post-war organization. These four are the only concrete institutions mentioned by Mr. Doman. The creation of any of these authorities requires the surrender of certain sovereign rights of the member states. But it will be more practical politically, as well as safer for preserving freedom, to have a larger number of such special international agreements than to try to establish a world state backed by the monopoly of force with a transient international elite leadership.

Mr. Doman's valuable study indicates very clearly the possibilities, limits, and also the real dangers of a universal world state backed by a monopoly of armed force with primary emphasis upon the priority of politics over economics and upon economic security more than upon freedom. It should not be forgotten that, in spite of a complete democratic control, concentrated power constitutes a potential menace for a smooth and dynamic development and progress. Such danger will not be overcome by reinterpretation of the meaning of various fundamental ideas.

ANTONIN BASCH

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Economic Union and Durable Peace. By OTTO TOD MALLERY. (New York: Harper. 1943. Pp. xvi, 183. $2.00.)

"In time of war, prepare for peace" is a modern slogan which is having more consideration during the present war than ever before. The reason for this is undoubtedly the failure to make a durable peace at the close of the last war. In a notable address to the American Academy of Political and Social Science, Otto Mallery stated what he regarded as the essentials of economic union and durable peace. The present book is an amplification and defense of the ideas there expressed.

Mallery steers a middle course between a customs union and an economic empire. His union is not merely a customs union but it favors greater freedom of trade based upon reciprocal trade agreements after the Hull pattern. Perhaps the most important point is that it is founded upon agreement, not conquest. The countries that compose the union are partners, not dependencies nor protectorates. All the partners are to have the same trade opportunities within the colonies of any member as the administrating power itself. The membership of the Economic Union is chosen for mutual economic advantage, not for power politics. The Union will regulate cartels operating over the national frontiers of the members; it will define fair trade practices and give the partners opportunity to complain of infractions. There will be set up a body corresponding to our Federal Trade Commission, which will carry into international relations the functions which that body exercises within our federal union.

Commodity agreements between producer and consumer countries, like the Inter-American Coffee Agreement, will be fostered, registered, and adminis-

tered by the Union. Agreements similar to those promoted by the International Labor Organization are to be engineered by the Union with the object of raising living standards in the member nations. The Economic Union will have a Bank, which will not only provide for the stabilization of exchange rates, but will also have the power to create new enterprises in various countries, and to leave the capital investment in such a country over long periods with no specific date of repayment. These long-term investments will be in enterprises similar to the T.V.A.

The above makes an all too brief summary of the most important features of the Economic Union and does not do justice to Mr. Mallery's well balanced and detailed exposition of the things he has in mind. However, if we think of durable peace, we immediately want to know not only what the plans for coöperation are, but who the partners are to be. The United States is to take the leading part in the formation of the Union; this country because of its markets, its raw materials, and its highly developed economic power is to be the magnet which will attract and hold together the other members. Next to ourselves "all criteria emphatically select the British Commonwealth of Nations first, last, and all the time if they will accept our warm and urgent invitation." Next come many of the American republics as desirable partners. In Europe, the Netherlands, Belgium, and the Scandinavian countries are eligible. China is a questionable partner depending not only upon the defeat of Japan "but upon other factors now unknown." Russia is not mentioned, and the omission raises many questions.

One of those questions concerns the nature of the peace that is contemplated. Is it a world peace, or is the peace one between the members of the Union? Mallery would answer that in the end durable peace for the world will be achieved, for all nations will be admitted just as soon as they satisfy our Anglo-Saxon requirements for membership, and the conclusion is irresistible that the Union is to be one of democratic states, and in the meantime "totalitarian states with power objectives whose economic policies are subordinate and arise chiefly out of their political aims" are to be excluded, but if they will mend their ways, become concerned with economic welfare and are willing to enter agreements made by consent instead of power, they will be accepted. Only a few nations are necessary for a start; others will be admitted as they prove their eligibility.

What are we to think of Mallery's plan? Hobhouse would have called it an essay in the rational good and then have proceeded to demonstrate its psychological shortcomings. It rests upon the fundamental belief that the basic cause of war is economic. Nowhere does Mallery discuss the causes of war, but his position is indicated by such a statement as, "The chief barriers that remain are artificial ones, trade barriers, because of which, even more than because of the other barriers we have war." But the great historians of World War I found the causes in the nationalistic struggle for power, and power they found to be something ultimate. This is probably the basic issue; if you do not give primacy to economic causes, you will not be convinced that economic union will lead to durable peace. You will demand political union and a col-

lective security system, ultimately envisaging true international law enforced by a world government.

Mr. Mallery seems to be afraid of political action, and so he tries to minimize the authority of governments. He wants the new international organization to be based upon a threefold representation of governments, of organized labor, and of organized managers. The omission of agriculture seems serious. But the attempted separation of the economic and political appears to be unreal. Because he does not keep this in mind, our author makes some astonishing statements, for example: "Just as the Constitution of the United States has resolved fundamental economic conflicts between component states, so Economic Union seeks to resolve similar conflicts between member states." But the Constitution is primarily a political document setting up a federal government, not merely an economic union.

The plan is based on certain propositions which the author regards as self-evident. "If goods cannot cross political frontiers, soldiers will. Unless shackles can be dropped from trade, bombs will drop from the sky. Economic bargains likely to be kept are preferable to political agreements likely to be broken." On the basis of these propositions his deductions are sound. But suppose a critic were to set forth the following: "If rulers decide to send soldiers across political frontiers, then goods will not be allowed to cross. If rulers decide to drop bombs from the sky, they will put shackles upon trade. Political agreements likely to be enforced are preferable to economic bargains which may not be kept." Obviously the critic will have a political, collective security plan for durable peace.

This reviewer does not want to be too critical. Mr. Mallery has made an important contribution to a great and vital subject. It should be studied by all who are interested in peace, and in particular it should be weighed carefully by those who contemplate a political federation. He has sound economic ideas which need to be implemented through adequate political institutions.

HERBERT F. FRASER

Swarthmore College

National Resources Development. Part I. *Post-War Plan and Program*. National Resources Planning Board, Report for 1943. (Washington: Supt. Docs. 1943. Pp. v, 81.)

The *Post-War Plan and Program* of the National Resources Planning Board was submitted to the President on December 16, 1942, and by the President to the new Congress on March 10, 1943, for its consideration. While it is subcaptioned "Report for 1943," it is far from being an "annual report" in the conventional sense of the term. There is no detailed review of the accomplishments of the year's work just concluded. Nor is there any outline of the projected activities of the Board during the year just opening. Moreover, it should be noted, perhaps, that what is offered is not a sketch of a post-war plan and program *for the Board*. Rather, it is a pattern of reconstruction for the nation.

The report consists of an Introduction of 8 pages, followed by a section

of approximately equal length entitled "Findings and Recommendations." The third part of the report, under the caption "Supporting Technical Material," is essentially an appendix.[1] For the first two of these sections, the Board takes full responsibility, whereas "primary responsibility" for the third section is assigned to various members of the staff. Briefly, the introductory section sets forth the aims of post-war policy, as the Board interprets our politico-economic goals, or as it would frame them. The second section represents the Board's formulation of what it conceives to be appropriate means for the attainment of these goals. The concluding section purports to develop grounds for the recommendations made in the second section.

The aims proclaimed by the Board are as unexceptionable—and as vague—as those enunciated in the Atlantic Charter. For a domestic socio-economic program for the post-war period might not one reasonably ask a more explicit declaration of objectives than "justice, freedom, and democracy"? Are the canons of candor and plain-speaking satisfied by a plea for "a dynamic economy . . . with a fair distribution of the resulting gains"?

For the realization of these ideals the Board proceeds in the second section to a series of recommendations which are embodied in three basic plans. To use the Board's classification, but not its terminology, these are (1) a plan for demobilization, (2) a plan for industrial government, and (3) a social security program.[2]

To facilitate the transition from war to peace the Board recommends (a) several measures to expedite the reabsorption of persons discharged from the armed services and from war industries into industries serving a civilian economy, (b) early formulation of policies in respect to the disposition of war plants and the cancellation of war contracts, and (c) a gradual modification of *the policies* of the administrative agencies created to meet the emergency.

There is no occasion to dispute the wisdom of the "steps" recommended. But here, as elsewhere, the Board contents itself with "good advice" in generalized terms when what is preëminently required is a formulation of specific details defining the scope and terms of measures for the implementation of policies recommended. For example, in respect to the disposition of war

[1] The table of contents lists a "Part II" following these three sections. The heading describes it as "Wartime Planning for War and Post-War," but no material is included in the present document under this division.

[2] There is listed also a fourth group of recommendations under the heading, "Plans for Action by State and Local Governments and Regions," but these are so nebulous that they scarcely deserve to rank as "plans." Substantively, some ten different lines of action are recommended, in such terms as "assisting" the conversion of private industry, "readjusting" war boom towns, and "strengthening" employment services. In reality, this is not planning at all; it is preaching.

In respect to procedure, if nowhere else, one would expect some concrete suggestions. Instead, the Board blandly urges (p. 18) "that the several regions take such steps as may be necessary, in such form as may be appropriate to the particular region and which [with?] such Federal participation as may be desirable. . . ." The vital problem of how to avoid waste, confusion and conflict in the performance of the overlapping functions enumerated by the Board for the federal government, on the one hand, and for state and local units, on the other, is not discussed.

plants, there is neither a detailed analysis of investment, adaptability, location, purchases options, *et cetera,* for different categories of plants nor a specific procedure worked out for each of the several alternative policies which might be adopted.[3] A true "planning" agency would be less concerned with urging the expediency of a given course upon Congress, which alone is empowered to determine the basic pattern of policy, and more concerned with assembling the concrete data which should serve to guide decision.

For the long-range government of industry, the Board likewise advances a tripartite program.[4] Recommended first are "Plans for Private Enterprise." Pursuing its tertiary taxonomic obsession, the Board boldly advocates (a) "measures to encourage the healthy . . . development of private enterprise," (b) "measures to prevent the abuse of economic power . . ." and (c) "measures to eliminate avoidable uncertainties. . . ." We leave these gems to the tender mercies of the semanticists. A few somewhat more specific suggestions are advanced in the Supporting Technical Material. Among these are promotion of industrial research, "patent reform," "effective social control of large scale business units," assistance to small business units, and "mixed corporations" as "an effective form of organization for certain plants in those industries . . . in which government has made great wartime investments." Quite evidently these "plans" still leave something to be desired in point of concreteness. The meager measure of the Board's solicitude for the preservation of equality of opportunity and economic freedom is evidenced in many ways, but not least of all by its proposal to grant "mixed corporations" operating in a wide range of industries, under private management, the "special privilege" of choosing their own competitors.

The second section of the long-range program for the control of industry sets forth, under the caption "Plans for Finance and Fiscal Policies," the Board's conception of the rôle of government in activating and directing the economy. It declares (p. 13) that "the fiscal and monetary policies of the Federal Government should be conceived and administered to complement and supplement [the] activities of private enterprise in the maintenance of adequate effective demand." Here is the heart of the Board's program, and that it is big-hearted will hardly be gainsaid—especially after an examination of the "Plans for Improvement of Physical Facilities" which constitute the third section of this second major division of the Board's program. For in this section are listed the projects on which, in the Board's view, government funds

[3] Again, in respect to the post-war policies of the administrative agencies improvised for the emergency, the Board urges continuance of "control of distribution of construction equipment and other producers' goods." But it advances no concrete suggestions on the standards which should guide the allocations of a, perhaps rechristened, Peace Production Board. It ignores the problem of finding an alternative yardstick when military requirements cease to be the controlling desiderata.

[4] Though a fourth division under the caption "Essential Safeguards of Democracy" is included in the text, it is not listed in the table of contents. In any case, essentially, it adds nothing to the recommendations made under the first heading, entitled "Plans for Private Enterprise." Either caption would serve to cover everything that is advanced under both captions.

should be released unstintingly to the end of "maintaining adequate purchasing power." While here, as elsewhere, the Board eschews concrete proposals, it indicates four principal directions in which the attainment of the fiscal "goal" of an expansion of public works expenditures might well be sought. These are "urban redevelopment," "transportation modernization," "energy resource development," and land improvement and conservation.

Elsewhere (in studies previously published by it) the Board has rendered a useful service in surveying the needs and potentialities of these several classes of projects. What is new (for the Board) here is the advocacy of this program, primarily, if not exclusively, as a means of stabilizing national income—"on the order of 100 to 125 billions." Or as the Board prefers to put it, the objective would be the "underwriting of demand" to this extent. Excellent as have been some of these "resource development" studies in canvassing the problems and prospects of fuller utilization of resorces, their outstanding deficiency has been the neglect of cost factors. This deficiency, a serious enough limitation from any viewpoint, becomes crippling in the context in which the public works program is here advanced. Nevertheless there is no attempt to overcome the deficiency. Indeed, it is not even recognized. In only two instances in the entire report is any mention made of cost considerations, and even then (pp. 11 and 15) they are referred to quite casually and incidentally. Yet if, as the Board believes, "after the war our free enterprise system . . . will demand *constant* assistance from government . . ." (p. 4, italics added) in order to overcome an assumed chronic deficiency of purchasing power, would it not be imperative, if national bankruptcy were to be avoided, to scrutinize closely the cost-yield relationships of projects upon which public funds are to be poured out?

Finally, in the third major division of its postwar program, the Board sketches the outline of a plan for an extension of the social security system and of public welfare services. This is the part of the program, the so-called "cradle-to-grave" insurance project, which has evoked the most bitter attacks in the press and in Congress. Yet there is nothing even resembling a radical departure from established precedents, or indeed from current policy, in the Board's recommendations under this heading. The inclusion of health and disability insurance along with old age pensions and unemployment insurance appears to afford slight occasion for the violent denunciations which have been heaped on the Board in this connection. Nor is anything suggested by way of an expansion of educational and public health services which should give ground for alarm, even among the D.A.R.

It is only in so far as the execution of these projects is tied up with the plans recommended in the second major division of the Board's program—for stabilizing national income by unstinted governmental expenditures—that a solid basis exists for criticism. The Board appears to be unaware that in adopting the Keynes-Hansen thesis it became incumbent on it to undertake a definition of the standards, limits, and scale of fiscal responsibility contemplated. Nor is any serious effort made to analyze the economic implications of federal government commitments of the character and scope indicated. The

impression conveyed is that in the Board's view the borrowing capacity of government has no limits.

In conclusion, this "Report for 1943" is in a very real sense an essay in construction. It represents a sincere effort to sketch the framework of a post-war society which, by affording adequate opportunities for the realization of democratic aspirations, will be reasonably stable and pacific. But the Board seems not to have appreciated that, in sponsoring a program of (domestic) "collective security," there devolved upon it an obligation to show plainly and concretely how the costs of such an undertaking could be met, how it could be managed, consistently with the preservation of the democratic institutions and ideals to which it avows its loyalty.

Obviously the several "survey" studies (such as those on Water Resources, Transportation, Social Security, and Urban Planning) on which the recommendations of this report purport to be based, useful as they are for certain purposes, furnish no answer to these vital questions. It is one thing to survey "national resources," actual and potential, used, misused and unused, and to catalogue optional methods or directions of their utilization. It is another, and quite different, thing to devise a pattern of organization and control calculated to insure their wise and prudent use. Indispensable though surveys and catalogues are, something more is required for drafting a salutary policy of social and industrial reconstruction. Unfortunately, evidence of this "something more" is lacking in the N.R.P.B. *Post-War Plan and Program.*

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Postwar Economic Problems. Edited by SEYMOUR E. HARRIS. (New York: McGraw-Hill. 1942. Pp. xii, 417. $3.50.)

This book is a symposium by 23 authors on the problems of our post-war economy. For the majority of the writers it is also a manifesto of a very definite credo of the shape of things to come: "We have to make up our minds as a nation that we will not permit a postwar depression to overwhelm us. We do not have to take economic defeat after the military victory is won. We can, if we will, maintain business prosperity. We can sustain a continuing demand for goods. We can keep industry going at high levels. We can maintain substantially full employment" (p. 13). "Private business can and will do the job of production. It is the responsibility of government to do its part to ensure a sustained demand. We know from past experience that private enterprise has done this for limited periods only" (p. 14). Thus does Professor Alvin H. Hansen state the *leitmotif* of the credo. If the 23-man orchestra has but three or four players who do not fully harmonize with the *leitmotif*, this may be due to, let us call it, a slight bias in Professor Harris's selection of writers. Perhaps it may just reflect the fact that the Hansenites have a numerical advantage among the latter-day economists, or that they enjoy the advantage of having a specific credo to express.

One should guard against underestimating the force of a credo. Animals

live by their instincts and in doing so are immune to theory. Humans, given "reason," tend to succumb to "reasoning" if it is only repeated often enough.

The Keynes-Hansen theory, stripped to its fundamentals, states that, as private enterprise has failed to ensure a sustained demand, public investment and policies directed toward increasing consumption and discouraging private savings are the solution to our troubles. That such policies lead to unbalanced budgets and an ever-growing public debt is either ignored by the more hypocritically inclined who still give lip-service to the old-fashioned idols, or faced with perfect poise like that of Professor Harris by proof that a public debt of 4,000 billion dollars is nothing to get scared of (p. 184). While Professor Harris thus outdoes Professor Hansen by a considerable margin in respect to his bold approach to the question of the burden of the national debt, he advocates "taxes which fall especially on the well to do" (p. 4), but apparently less for the purpose of meeting budget deficits than for the cause of "redistribution of wealth." Professor Hansen, in contrast, wants a "broadened tax base" and "less reliance on the corporate income tax" (p. 21).

The reasoning behind the credo is somewhat obscure when Professor Harris states in his introduction: "The authors agree, well-nigh unanimously, that, if private enterprise does not provide a high level of employment and a reasonably high standard of income, government intervention is imperative. Capitalism is doomed if the experience of the thirties is repeated" (p. 4). Two questions naturally arise in the reader's mind.

1. Have the thirties proved the case for or against deficit spending?

According to Professor Hansen, "The idleness of the decade of the thirties was responsible for the loss of $200 billions of income" (p. 15). He evidently seems impartially to blame President Hoover for what he did not do and President Roosevelt for what he did do. Later (p. 22) Professor Hansen centers his criticism of New Deal spending on its hand-to-mouth character: "No one knew where it was going or when it would end. . . . Sporadic public expenditures, no matter how large, will induce little or no private investment, but a public-development program extending over many years and designed to open private investment outlets could profoundly influence investment decisions."

While Professor Hansen thus puts the blame for the thirties on the inconsistency of public spending, Professor Slichter on the other hand finds fault with federal tax policies of the last decade, which have "developed in such a way as to bear heavily upon profits, to produce an unfavorable shift in the investment function, and to limit employment opportunities" (p. 256).

Professor Bissel talks of the "lamentable thirties" and takes issue with Keynesians "who hold that the great depression signalized the major break in American economic development." "Prior to that time, they admit opportunities for private investment had, on the average, been adequate to maintain reasonably full employment in a reasonably high level of economic activity. . . . But 1929 marked the end of this era. Thereafter we might expect to suffer from a secular stagnation due to a chronic deficiency of investment opportunity . . ." (p. 86). After disposing one by one of the "mature economy" arguments, Professor Bissel suggests that "an unfriendly political climate and

the unrest in the labor market may explain in part the failure of long-term investment to revive" (p. 89). It is only logical, then, that Professor Bissel should finally conclude that "the thirties may turn out to be a depressed decade separating two long periods of high investment activity" (p. 90).

2. While we are thus still wondering about the significance of the "lamentable thirties," we cannot help being somewhat suspicious of the choice between the private enterprise system and "government intervention" as held out to us in Professor Harris's statement quoted above.

Are the red-blooded Keynesians really willing to delay government intervention, *i.e.*, "policies directed toward increasing consumption and discouraging private saving" (p. 15), until business has shown that it can provide high-level employment? Can private enterprise be expected to reach this goal in an economy characterized by "an active labor policy" and "taxes which fall especially on the well to do"?

Professor Slichter fears that "Union wage policy will tend to keep the prospect for profits unfavorable, because unions will press for wage increases despite the continuation of price controls" (p. 245). Professor Slichter rightly points out that "profits and payrolls almost invariably move upward and downward together and in such a way as to suggest that for each change of 1 billion in the prospects for profits there are corresponding changes of about 2 to 5 billions in the amount which employers are willing to pay for labor" (p. 254). And again, "sooner or later labor will discover that it has an even greater interest in taxes on profits than do business owners, for the simple reason that a change of $1.00 in the prospects for profits produces a change of several times that amount in payrolls" (p. 257). Professor Slichter then adds, obviously with a mixture of regret and hope, that "labor does not know this fact yet, but labor cannot be expected to remain ignorant of it forever."

The reviewer fully shares the opinions of Professors Bissel and Slichter as to the crucial importance of a favorable climate[1] after the war. He also shares Professor Schumpeter's fear of "capitalism in the oxygen tent" (p. 123), but he is more sanguine in his belief in the chances the people have to deal with the "inherent strength of the vested interests of the bureaucratic apparatus of the Federal Administration" (p. 122). After all, who foresaw the sudden demise of the National Resources Planning Board and of the Guffey act—to cite but two examples of the power of the people reflected in the recent anti-bureaucratic mood of Congress?[2] While the reviewer feels more sympathetic to Professor Slichter's view that "the rise of administrative government may be harmful to democracy because the public may require time to convert

[1] Professor Bissel's requirements of such a climate are "That fiscal policy, taxation policy, the policies of local, state and Federal regulatory agencies, the powers of the anti-trust division, the activities of public enterprises (such as the TVA, municipal power plants and water systems, state highway departments), and even the sacred and untouchable activities of the Federal Government toward labor relations and agricultural subsidies should be designed to create conditions favorable to enterprise and investment" (p. 109).

[2] In selecting for citation the National Resources Planning Board and the Guffey act, the reviewer does not imply any appraisal of their merits.

the administrators from masters into servants" (p. 257), he hopes that the process will not take "a generation or two."

On two issues the reviewer finds himself in close agreement with Professor Hansen: (1) After business has been given every chance and failed, "a government development program designed to open private investment outlets" (p. 22) must be the alternative. (2) Such a government program, to be effective, should take the form of long-term planning.

Where the reviewer differs from the Keynesians, and therefore with the majority of the 23 authors, is that he pleads that the free enterprise system be given a *real* chance. This would require that the Keynesians sit back and await their possible chance to say: "I told you so!" This may be too much to expect of human nature. After all, the Keynesians are straining at the leash to demonstrate what they can do if given a free hand.

The foregoing outlines the conflicting views of the majority of the writers adhering to the Keynes-Hansen school and of the dissidents. This clash of views appears by far the most crucial issue raised in the book. It is regrettable that the many valuable suggestions made in the other essays cannot be similarly discussed.

World War II has set in motion strong forces inimical to the free enterprise system, in spite of the fact that the "political climate" today is probably less "anti-business" than at any time since 1933. Among these forces are:

1. The centralized direction of the economic effort called for by total war;

2. Interference with the price-making process and such steps as government seizure of the coal mines, both of which mean long steps toward a "guided economy";

3. The fact that the greatly increased amount of production to government order may be interpreted by many as showing the feasibility of "budget deficit prosperity"—a large percentage of the population, in uniform and in mufti, is becoming used to being paid by government check.

4. The fact that a large section of the most self-reliant and aggressive age group of the male population, from which normally the entrepreneurial spirit springs, has been transferred out of the world of business into activities not measured by economic standards. This condition, by itself, does not necessarily mean that once the war is won the young men returning to civilian life will not create a tremendous impetus to expansion. They did so after World War I. It will depend entirely on the "economic climate" into which they return.

If private initiative can flourish, the returning youth of the country will take the ball and run for a goal. But if the climate is unfavorable, if labor and tax policies make the outlook for profits uncertain or even decidedly poor, if risk capital for small and medium business is unavailable, the returning veterans will, with a great deal of justification, demand that government create jobs. They will have enough coherence to exert pressure which no Congress could resist, even if their large vote should not of itself be enough and even if no other voters should be sympathetic to their demands. Thus, clearly, the post-war period of readjustment will not allow for any lengthy time of deliberation. If private enterprise cannot absorb the job-seekers,

voters will not analyze whether the "economic climate" is at fault, whether lack of working capital, lack of credit facilities, or too high taxes on profits are to blame. The voters will demand jobs and a harried Congress may authorize a government investment program to create these jobs.

If we then enter upon the realization of the Keynes-Hansen theory, the public debt will grow rapidly and we will be told that as long as the "whole family" is working, the mortgage on the old homestead is owned by ourselves. But if we are to be bold to face a brave new world, why not be less reckless with our future? Why not use the "whole family" argument and improve the incentives for initiative and the investment of venture capital by reducing taxes on enterprise profits, even at the expense of, for the time being, an unbalanced budget? If this policy should not sufficiently unleash forces in the free enterprise system that were restrained during the "lamentable thirties," the Keynesians should have their inning. Then the "new philosophers of public debt" would have to make the unenviable choice between regimentation and inflation.

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Problems of Post-War Reconstruction. Edited by HENRY P. JORDAN. Foreword by STEPHEN DUGGAN. (Washington: Am. Council on Public Affairs. 1942. Pp. xix, 292. Cloth, $3.25; paper, $2.75.)

There are fundamental issues relative to national policies and to international relations which must be analyzed carefully in order to lay adequate foundations for our post-war policies. Manifold measures will have to be adopted promptly in order to save the world from chaos. If these measures are adopted under pressure of events, without being integrated into a wider pattern, we may miss the opportunity of ever reaching our ultimate goals. Hence the importance of wartime discussions of post-war policies. Hence the activity of the many groups, organizations, committees and councils dealing with post-war affairs. Hence, also, the opening up of the academic "ivory towers" to the discussion of these urgent issues of the future.

The volume under review is the result of a season's work of the Seminar on Post-War Reconstruction Problems, set up in the Graduate School of New York University. The thirteen essays that compose it are presumably papers read before that seminar. While the book was published in 1942, the essays composing it seem to have been written before Pearl Harbor. This fact, which it is important to remember in reading the book, is not clearly indicated in the introduction. Nevertheless, a book of this type is interesting even after it has ceased to be entirely timely. It reflects points of view and attitudes which may have changed under the impact of events, but which may return to the surface in the future.

It is very important that a symposium have a fundamental unity of outlook, particularly if it is intended for the general public. That unity is rather sadly missing in the book under review. Liberal and socialist ideas appear

in various essays, leading to contradictory points of view on the questions of capitalism, of free trade, of private property. Worse than that, certain authors seem not to be clear about what should be the basic hypothesis of any essay in dealing with post-war problems, namely, who will win the war. This is particularly striking in the essay by Mr. K. J. Deacon on "Regional Divisions of Industry and Agriculture" (p. 60), and in the editor's (Professor Henry P. Jordan) own essay on "Hemisphere Policy as Implemented by Economics" (pp. 154-55, 163).

To be sure, in 1940 or 1941 there were advocates of a negotiated peace and pessimists who believed in the nazis's victory, or at least in the impossibility of displacing Germany from Europe. Nevertheless, there should have been a unifying editorial job done before the release of the volume, in order not to leave in the reader's mind some very perplexing questions as to the assumptions made by some of the authors about the outcome of the war. To a fellow student of the writers, this book will be stimulating and challenging. To the general public, it will most likely be somewhat bewildering.

This raises a question of the general usefulness of this type of publication. The professional reader will find more technical material in the specialized journals and other sources than he would in a symposium. For the general public, on the other hand, this kind of symposium is not sufficiently well knit and integrated. It is deplorable for the public to get the idea that "experts" come out into the open before they have achieved clarity themselves on the issues which they attempt to elucidate to the laymen. The present reviewer is prompted to make such general comments by the frequent recurrence of this sort of reflection upon reading other similar collections of articles that have been published in the last few years.

Turning to the detailed contents of the book, several articles need to be particularly emphasized as informative, well organized, and worthy of careful study. Professor Eagleton's introductory essay on "Fundamental Principles and Problems" gives a broad view of the issues with which we will be confronted at the end of the war, and in itself deserves a very wide circulation. The essay on "The Future of the Small States," by Oscar J. Falnes, is a very welcome defense of the function and mission of smaller countries, which are so frequently under fire by advocates of large blocks. Dr. Aufricht writes with competence on "The European Minorities Problem," although, unfortunately, he does not leave one with a clear idea as to how that extraordinarily intricate question could be successfully settled in the future.

The Western Hemisphere receives a separate section in the volume, with a very workmanlike study by the late Professor D. W. McConnell on "Competition for Latin American Trade," which is one of the best chapters in the symposium, and also Professor Jordan's "Hemisphere Policy as Implemented by Economics." On the other hand, Professor Hula, discussing the "Utopian and realistic elements" of Pan-Americanism, tries to compress too many legal, political and psychological questions into twenty pages, leaving the reader breathless and not at all clear about what is the upshot of the argument.

Two articles are not only on the pessimistic side, but leave the reader help-

less and hopeless, which is strange in a book obviously intended as a source of supply of constructive and positive ideas. Professor Howard Becker entitles his essay "After the Deluge," but leaves us without a trace of a rainbow. The world after the deluge is apparently going to be a world of state capitalism and of autarchy. To this reviewer, this means a world of dictatorial rule and of international strife. To quote Professor Becker, "autarchy, albeit co-existing with a certain amount of international trade, holds the keys to the future" (p. 28). In the gloomy world he envisages, even "the current demand for a 'moratorium on science' makes sense" (p. 31). The assurance that "it is entirely possible to have a greatly increased degree of political and economic control without relinquishing the essence of the democratic way of life" (p. 38) comes as a very modest comfort when unsupported by either argument or evidence. The experience of the twentieth century seems to give very little support to such hopefulness. The emphasis on autarchy, which is one of the dominating themes of his article, stands not only in contradiction with the demand for international economic collaboration voiced by other authors, but can hardly be reconciled in the light of both reasoning and experience with any expectation of a world order.

The concluding essay of the book, "War as a Peace Dynamic," by Professor Charles Hodges, raises a great many disquieting questions connected with the inevitable difficulties resulting from a survival of power politics after the war, but does not provide any of the answers which the anxious reader would surely expect to find. Is the next peace irretrievably lost even before we have won the war? A book dealing with post-war reconstruction should hardly end on such an unanswered question.

Finally, the chapters which, for the readers of this *Review,* will be of greatest interest are those dealing with economic questions. While economic considerations intervene at various stages of the discussion, they are not given very detailed consideration other than in two excellent chapters: "The Gold Problem and the World Scene," by George S. Hirschland, and "New Methods of Trade Policy," by Richard Schueller. These two essays make the volume interesting to an economist. They are both thorough and painstaking.

Dr. Hirschland favors monetary internationalism. "In an atmosphere of international coöperation, the customary objections to the gold standard will lose point. . . . What we must strive to create is an efficient machinery for coördinating the monetary policies of different countries. . . . The need is for coöperative policy-making within the framework of the gold standard. . . . The present alternative to the gold standard is an economic nationalism which is incompatible with the aspirations of the peoples of the world for liberty and permanent peace."

Dr. Schueller's article is concerned very largely with the question of customs unions, regional patterns and arrangements, and so on, and is a stimulating, well balanced, and wise discussion of these important and intricate questions.

The other two essays in the "Government and Business" section of the book are less satisfying. Professor Lois MacDonald is very much concerned with

the alleged incompatibility between capitalism and free trade, and tends to underestimate the forces of economic nationalism which emanate from socialist planning. Her emphasis on the need for a unified world economy is very timely, though insufficiently implemented in detail. In this essay, also, there is no clear hypothesis as to the outcome of the war, which, as suggested earlier, is a very serious handicap. Dr. MacDonald's emphasis on the establishment of domestic order in the various countries of the world as a factor of international stability is very much to the point and worthy of considerably more detailed elaboration.

Finally, Dr. Pinney's essay on "Property and the International Order" is suggestive, but not convincing. Like Dr. MacDonald, he believes that there is conflict between international economic collaboration and corporate enterprise, but he is inclined to go further than she in his criticism of capitalism.

The reader who works his way through this volume will have to carry out a considerable process of elimination and selection. After he has done so, he will be left with quite a few suggestions, ideas, and views, some of the latter controversial, which will make his effort worth while. The book would not be suitable for either the general public or classroom use.

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The Nazi State. By WILLIAM EBENSTEIN. (New York: Farrar and Rinehart. 1943. Pp. xi, 355. $2.75; college ed., $2.00.)

Those who look for the sensational in their reading of studies of nazism have been very well served during the recent years in the writings both of a large and highly competent body of newspaper correspondents, "eye witnesses," and of authors with more scholarly interests, both native and expatriate. The most sensational feature of this book is its title, although this may not become apparent until the contents have been digested. For, having told us that he is about to discuss the "nazi state," Professor Ebenstein proceeds to demonstrate calmly, but with an unanswerable logic almost cruel in its directness and accuracy, that the concept is an impossibility, that it is a contradiction in terms, that the two words can have no possible association, and that "nazi" and "state" have no right to stand next each other in the mind, not to speak of print. Here the sensational, as originating with the author, ceases.

Mr. Ebenstein is a professor of political science at the University of Wisconsin. He is a most careful workman and, while he has dispensed with the usual cumbersome paraphernalia of scholarly writing, he has handled his material in a manner to satisfy the most exacting of scholars, and at the same time to invite the attention of the general reading public. He has drawn this material entirely from Nazi sources—scientific journals, monographs, laws and edicts, regulations and orders—all of them dating from the actual political arrival of Hitler and the imposing of nazism on Germany. Thus he has made the foremost and authentic Nazi spokesmen condemn nazism out of their own

mouths. Perhaps it would be better to say that he has permitted them so to condemn. For Mr. Ebenstein does not anywhere in his book ask us to accept any conclusions at which he may have arrived; indeed, he does not suggest that he has arrived at such conclusions. Yet the discussion inevitably forces conclusions as the reading of it progresses. This is masterly work.

Beginning with an argument over the legality of Hitler's appointment by President von Hindenburg, the author carries us through several chapters in which he subjects to a careful scrutiny the fundamentals of nazi politics, the structure of national, state and local governments, the fundamental organization and development of the Nazi party, and the operation of law and justice. For the reader with mind untrained to grapple with bizarre political concepts and ideologies the reading here makes rather stiff going. This is not due to any fault of organization or interpretation, but to the rather academic nature of the discussion and to the very close packing of facts and ideas almost unintelligible to citizens of this hemisphere.

The following chapters are devoted to the nazi method of harnessing and moulding public opinion—propaganda—and to subjects which may be grouped under the rather misleading term "culture." It is in these chapters that the author is at his best. Actually the decline of German culture is depicted: the falling off in the number of schools and of teachers and of quality of instruction; the diminishing of library facilities since the coming of the nazis; the vitiating of material for study and the consequent toppling of educational standards generally. The argument is here bulwarked with a wealth of detail—lists of forbidden books, features of the party schools, and the various devices set up to shackle German youth with the new ideologies.

A searching examination of nazism as it affects religion is the burden of one chapter in this division. Opening with the religious philosophy of Hitler as defined in *Mein Kampf* and its incredible development by Alfred Rosenberg in *Der Mythus des 20. Jahrhunderts*, Mr. Ebenstein goes on to instruct us in the neo-paganistic nonsense of which General von Ludendorff was one of the principal exponents until his death in 1937. It is, as the author says, most unfortunate that Rosenberg's "monstrous" work has found no English translator. The book is a long one and the labor of translation—by reason of various technical difficulties—not lightly to be undertaken. Nevertheless it is to be hoped that the task of translation and editing will attract some capable scholar. It should be invaluable to a more dispassionate study of the nazi aberration in future years by historians now inevitably emotionally affected by current events.

The struggle against organized Protestantism and Roman Catholicism, with its attendant outright violences, has been ably treated in the space which the author had to devote to it. This is a subject almost limitless in its ramifications. In mentioning the Concordat with the Vatican which was adopted in July of 1933, Mr. Ebenstein expresses what might well be accepted as descriptive of all nazi engagements: ". . . to exploit the credulity and trust of the treaty partner in order to scheme his destruction the more subtly and decisively." The historical attitude of organized Christianity in Germany is set over against present conditions with great clarity.

The position of labor under nazism is given a chapter and the subject is rendered more intelligible and the discussion more valuable by an outline of the history of German industrialism. This is followed by a chapter on foreign policy with which the work concludes. No doubt can remain, after reading this chapter, that the roots of nazi policy drive well into Germany's history. This should invite the careful and deliberate consideration of those who profess to find in the nazis an entirely new and strange phenomenon in Germany's history, utterly alien to the spirit and practice of the "good" Germans who, they confidently expect, will welcome a release from an unbearable nazi yoke and all that it has meant in affairs both internal and foreign. It is the author's purpose, I take it, to show that the world-disturbing features of nazism have been for years characteristic of "normal" German politics, merely brought by Hitler and his associates into new and sharp focus.

The importance of the *Nazi State* does not primarily lie in the fact that it has brought us new information. Everything here has been discussed before and by a variety of authors. What has been accomplished in this book for the first time, so far as I know, is a bringing together of all the worthwhile facts between two covers with a thoroughness and a keenness of analysis that are amazing. All those who thoughtfully contemplate a system for post-war Europe—and for us, for that matter—which will be free from the fallacies of statesmen characteristic of the history of the past century, will do well to seek enlightenment from this excellent work. Mr. Ebenstein has earned the right to fulfillment of his expressed hope that his work "will contribute . . . to the discussion of post-war problems. Catastrophe will be avoided," he says, "after this war only on condition that we accept German politics of the last one hundred and fifty years for what it is."

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Ithaca, New York

The British War Economy. By MARY E. MURPHY. (New York: Professional and Technical Press. 1943. Pp. xiv, 403. $2.50.)

Dr. Murphy has attempted to present a picture of the major facets of the British war economy. All the familiar segments are here: mobilization of resources, labor policy, fiscal policy (inaccurately described as "conscription of money"), price control, rationing, concentration of production, food, curtailment of civilian supplies, transportation problems, and transition to peace. Although the Preface states that the volume covers the period up to January, 1943, the book was published in January, 1943, and the material, except for occasional items, deals primarily with the period up to the spring of 1942.

The volume contains a great deal of information but its usefulness is vitiated by poor organization, inconsistencies, and many misstatements of fact. Thus, national income in 1942 is shown as £9 billion (p. 160), £5.1 (p. 163), and £6.2 billion (p. 202), with no attempt to reconcile the figures. At another place (p. 141), it is stated that earnings of workers increased by 30 per cent from the beginning of the war to the end of 1941 and by 42 per cent from October, 1939, to July, 1941. The terms wages and wage rates are

used interchangeably, with the result that we find (p. 139) the "general average of wages" advanced 26 per cent up to January, 1942, and on the following page, "total wages" increased 69 per cent in a somewhat comparable period. She obviously was referring to wage rates in the first instance and to total earnings in the second.

Some typical errors of fact include: the allegation that "it is impossible for any Briton to earn more than £3,000 a year" (p. 200) although the effective ceiling is between £6,000 and £7,000; the Limitation of Home Supplies Order is referred to as "an Act entered on the statute books" (p. 236) although it was an order issued by the Board of Trade; the base date for control of non-food retail prices is given as April, 1939 (p. 244), instead of August 21, 1939; it is stated that the Prices of Goods act "estimated a maximum price and a margin of reasonable profit for a list of specified goods" (p. 243) although the act contains only a general grant of power; the data on food prosecutions are represented as indicating the "food traffic in black markets" (p. 260) although many of the offenses included by the Ministry of Food have no relationship to the black market. The sections on rationing have many errors: rationing started in January, 1940, not in December (p. 270); coal rationing was only proposed, it was never placed into operation (p. 233); ration books were used by consumers from January, 1940, not from July, 1941 (p. 273); soap was not rationed on a point system (p. 234), etc., etc., etc.

Some of the mistakes have covered a broader front than the detail noted above. Thus, the Goods and Services (Price Control) act of July, 1941, is described as "the first major change in British general price policy since the inception of the war" (p. 245) although this resulted mainly in an application to non-food products of more comprehensive price controls, many of which had previously been used for food products. It also ignores the subsidy policy which was introduced in December, 1939, and the general policy to stabilize prices which was announced in April, 1941. The failure to give adequate consideration to this latter development in policy is also reflected in the method of presenting the price data, which are shown for a number of meaningless dates, thus making them virtually useless for an appraisal of the degree to which stability was achieved by price-control measures. In general, it might be noted that the author has given inadequate treatment to the problem of price control and subsidies.

The British wage stabilization policy has been based upon the assumption that stability in the cost of living index would reduce the pressure for wage increases and obviate the need for fixing wages by government fiat. Dr. Murphy states, "That this procedure was not wholly successful is indicated by the fact that the campaign for higher wages has continued unabated" (p. 250). However, the facts are that the Bowley index, which was increasing at the rate of 1 per cent monthly prior to the stabilization program of April, 1941, has been increasing about three-fifths as rapidly since that date and about half of this increase has been due to a rise in agricultural and mining wages, required to induce labor to remain in these two critical occupations.

This record is especially favorable when it is remembered that, in the absence of control, wage rates could be expected to increase at a sharply accelerated rate as the war progressed, as they did during the last war.

An interesting illustration of one of the many unsubstantiated statements is the conclusion that "the amount of money spent in black and legal markets *can be estimated accurately*" (p. 263; my italics). This conclusion was based upon a report that the black market was estimated to have an annual cash turnover of £156,000,000. The author fails to give the source or the basis for this estimate. However, according to a dispatch to the New York *Times* (Mar. 5, 1942), the figure was derived as follows. It was estimated that about £3,000,000 of currency "never gets back to the banks." The figure of black market turnover was derived by multiplying this amount by 52, on the "supposition that this whole sum changes hands at least once a week." But Dr. Murphy tells nothing of these calculations which are the basis for the "accurate estimates" of black market dealings to which she refers.

The items cited above will indicate why this reviewer suggests that this book must be used with great care.

JULES BACKMAN

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Victory and After. By EARL BROWDER. (New York: Internat. Publishers. 1942. Pp. 256. $2.00.)

Earl Browder is not merely the head of a small political sect but the principal American spokesman of the communist world movement which has not ceased to exist after the formal dissolution of the Third International. He is a spokesman of great ability. While almost all other communist leaders the world over were content with repeating the Moscow slogans, Earl Browder developed a political style, if not a complete policy, of his own. His attitude as a standardbearer of American patriotism and American tradition is somewhat overdone, but that is no reason to question its political significance. For one who speaks so much of Lincoln and Jefferson today it will be difficult tomorrow to recommend a proletarian dictatorship, Soviet style, for the United States or even for Germany or France. In all likelihood, Mr. Browder wishes for a post-war orientation of communist policies that would facilitate at least a temporary coöperation with democratic forces.

Unfortunately, Browder fails to see that frankness on both sides is an important requisite of a *rapprochement* and that no good can come from an attempt to spread illusions. The picture which he draws of the character and the policies of the American Communist party is not far from pure fiction. According to Browder, the Communist party in the United States is a group of American patriots who are convinced that socialism and friendship with the Soviet Union is in the interest of the American people. This group is presented as being by no means directed from abroad or motivated by other than American interests. Far from intending to achieve its aims by revolutionary means, it gives "formal assurance" "that we will not raise any

socialistic proposals for the United States in any form that can disturb this national unity. To all those still haunted by the 'specter of communism,' we offer the services of the Communist Party itself to lay this ghost" (p. 113). Because the formal assurance might be interpreted as referring only to the war period and non-communists might still be haunted by the specter of a post-war communist revolution, Browder supplements his pledge by an offer of coöperation to all groups interested in making possible the "solution of reconstruction problems, with a minimum of social disorder and civil violence" (*ibid.*).

If these statements were to be taken at face value, they would mean a change of the Communist party from a revolutionary group believing in dictatorship into a peaceful movement for socialism. This change would have to be more thoroughly explained if we were to trust in its completeness and durability. Nor is Browder's denial of Moscow control of his party made plausible. What he says to explain the attitude of American communists in the period between the outbreak of the war in Europe and Hitler's attack upon the Soviet Union is in so obvious contradiction to facts that it does not tend to establish confidence in his other assertions. Browder maintains that the communists opposed America's entry into the war merely for fear that America might be beaten, because at that time the Soviet Union was still keeping out of the war and the antifascist coalition might therefore have been too weak: "History has proved that even with the Soviet Union fighting the most magnificent battle of all history *on our side,* even now we are not yet assured of victory! What if the American communists had helped throw the United States into this war *with the Soviet Union still neutral!* . . . such a course might conceivably have delayed Hitler's attack against the Soviet Union until he and his Axis partners had *disposed* of the United States" (p. 109; italics in the original).

If America was in such grave danger, and if the attitude of the Soviet Union in the eventuality of an American-German war was doubtful, then it was imperative for the United States to prolong British resistance against nazi Germany as much as possible. Lend-Lease should then have come earlier and should have been larger. America's own armament could not be rapid enough under those circumstances. Surely it was folly to believe that the United States would be able to purchase security from a nazi attack by a "neutral" attitude. The strongest moral and physical preparedness, the utmost support of antinazi forces in Europe was then the need of the hour.

Was this the policy of the Communist party of the United States? On the contrary, the communists operated as the most effective striking force of American isolationism and false pacifism. Earl Browder himself warned America in the strongest possible language not only against military intervention but even against moral and economic support of the English.[1] The communists denounced the war as a "family affair" between capitalistic rivals and denied that the victory of one side was preferable to that of the other from an American point of view. Earl Browder preached "against this madness

[1] See, for instance, his speech before the MIT Peace Foundation, December 15, 1939, printed in *The Second Imperialist War* (New York, Internat. Publishers, 1940), p. 199.

of armaments"[2] and the communist election platform of 1940 condemned the preparedness measures.

This policy of the communists was undoubtedly of great service to the Axis. The communists, of course, did not love nazi Germany at that time any better than they do now. But Stalin still believed that he could make Soviet neutrality sufficiently valuable for Hitler to prevent an early nazi attack on Russia. The anti-British orientation of the Third International had the same purpose as Russia's policy of supplying Hitler with raw materials. Both measures were intended to convince the Nazi leader that he could put faith in the friendly attitude of the Soviets and would do well not to resort to hostile action against Russia. The American communists do not hesitate—as far as the outsider can judge—to comply with this requirement of Russian foreign policy. In the past, the primary goal of communist policy in the United States was support of the Soviet Union. There is no convincing evidence of a change.

Although we shall do well to assume that the Communist party of the United States will serve the interests of the Soviet Union in the future as it did in the past, nothing can be gained by a red-scare mania. This is not the first time in history that allegiance to a creed has superseded national allegiance. Earl Browder, whatever the objections to his policy and his historiography, at least is sincerely interested in keeping American-Soviet relations as friendly as possible. Few Americans will deny that this is a highly desirable goal. The elaboration of a *modus vivendi* with Russia will be greatly facilitated if men like Browder are spokesmen of the Soviet cause in the United States. It would be poor statesmanship to initiate a policy of persecution which would probably bring narrow-minded fanatics into the key positions of American communism, where they could do more harm in the crucial post-war period than at any previous time.

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Statistics; Economic Mathematics; Accounting

National Income and Its Composition, 1919-1938. By SIMON KUZNETS. 2 vols. (New York: Nat. Bur. Econ. Research. 1941. Pp. xxx, 929. $5.00.)

In a period when national income estimates form the basis for newspaper headlines and are the concern of the highest government officials, Professor Kuznets's latest and greatest work occupies a position of special importance. Although the estimates which are currently quoted so widely do not stem directly from the Kuznets workshop but come rather from the Department of Commerce, interested students will naturally turn to this comprehensive treatment of the theory and practice of estimating national income for the

[2] Speech delivered by electrical transcription at Symphony Hall, Boston, Oct., 1941. Reprinted in *The Way Out* (New York, Internat. Publishers, 1941), p. 108.

answers to numerous questions. The answers are here given fully. Within over nine hundred pages—including more than two hundred tables—much valuable material, both methodological and factual, too often left in the files of research bureaus or in the minds of research workers—is here exposed to the scrutiny of income estimaters and interested onlookers.

What is the nature and significance of national income and its major components? The reader of this two-volume work will find the answer in Part I, chapters 1 and 2, comprising nearly a hundred pages. What is the nature of the data and the procedure involved in combining them to produce the national income estimates? Here the answer can be found in various degrees of detail. Part I, chapter 3, and Part III, chapters 8 and 11, again totaling about a hundred pages, give a survey of the subject, while Parts IV and V, which together comprise over three hundred and fifty pages, provide supplementary information. In addition, the items which Kuznets has decided to omit from the estimates are carefully considered in the twenty pages of Part III, chapter 9; the reliability of the estimates is gauged in the forty pages of Part III, chapter 12; and a comparison is made with some of the other estimates in the thirty pages of Part III, chapter 10. What changes have taken place in national income and its composition in the inter-war period 1919-1938? Kuznets and his staff provide the answer in over two hundred and fifty pages which constitute Part II, chapters 4 to 7. There is also a detailed tabular as well as textual index. The evaluation of a comprehensive work of this sort must necessarily be confined to a few only of the main points of interest.

I. *Nature of the Estimates*

Kuznets defines national income in the accepted fashion as "the net value of all economic goods produced by the nation" (*Vol. I, p. 3*). He points out that each term in this definition has both commonly accepted and controversial elements depending on time, place and person. The main emphasis is on the fact that the national income is an "appraisal notion," that is, "it inevitably reflects the judgment of society at large as to what economic production is, a judgment that admits of several variants even for a given society at a given time" (Vol. I, p. xxviii). The various possible methods of appraisal involved in each term of the definition are considered in great detail. Here Kuznets makes a number of decisions which must be kept in mind in any practical use to which the statistics are to be put.

Valuation of Goods Not Appearing on the Market. One of the main problems with which Kuznets deals is that of determining the "economic value" of economic goods entering into national income. Here he uses market price on the grounds that "the yardstick of economic value is fashioned on the market place" (Vol. I, p. 21). He nevertheless recognizes that market prices are a somewhat defective yardstick. In presenting the defects Kuznets appears to engage in some faulty reasoning. He points out that there are two difficulties in the way of using market price in evaluating goods not appearing on the market. First, consumers might not buy some of the goods they are consuming if they had free choice. Second, if the non-market goods were

offered for sale the price might be lowered. "If this reasoning is valid, then the application of existing market prices to non-market goods overvalues them on two counts: first, because of the distinct probability that they are of lower quality than the market goods with which they are *at all* comparable; second, because withholding them from the market may have served to maintain the prices of their *exact* counterparts at a level, relative to the prices of all other goods, higher than it might otherwise have been" (Vol. I, p. 23).

In his second point Kuznets forgets that if the non-market goods were offered on the market, demand as well as supply would rise because demand as well as supply would be released by the transfer of the non-market goods to the market. To the extent that the first point applies, that is, to the extent that people might buy other goods if they had free choice, the increased demand might fall short of the increased market supply. Hence Kuznets's second point is valid only to the extent that the first point holds and is not a separate factor making for lack of comparability between non-market goods and seemingly identical market goods.

Valuation of Government Services. Perhaps the most questionable decision Kuznets makes is that involved in his treatment of government. He defines net income originating in government as government payments to individuals *plus* net savings (Vol. II, p. 815), and he defines net savings of government as the change in the security assets held by the government *plus* the net value of public construction *minus* the change in public debt (Vol. II, pp. 831-33). He claims that this yields an estimate of income originating more nearly comparable to other parts of national income (Vol. II, pp. 414-15). Kuznets therefore includes tax-financed expenditures and those debt-financed expenditures which are embodied in capital assets; he excludes those debt-financed expenditures which are not embodied in capital assets. Thus he adopts the so-called payment-price basis for valuing governmental services, where the tax revenues represent the payment price. The decision to adopt this treatment is made after an extensive discussion of the pros and cons and a recognition of the possibilities of the so-called cost basis (Vol. I, pp. 31-34).

However great may be the advantages of this approach for purposes of symmetry, it has the disadvantage of giving an erroneous impression of the government contribution to national income. Kuznets excludes from national income those debt-financed expenditures which are not embodied in securities or public works. Thus he treats government as he would treat a consumer. Debt-financed expenditures not embodied in capital assets are considered to be dissaving.

The disadvantage of this approach is that the resulting figures of national income and of income originating in government cannot be used in any causal analysis of fluctuations in national income. Both the government expenditures and the private investment expenditures provide income which is the basis for further private consumption expenditures, in accordance with the multiplier principle. The question whether the government expenditures are embodied in capital assets is of secondary importance in this principle. The important question is whether disposable income is created. To exclude from

national income monies received from debt-financed government expenditures on non-capital items makes inapplicable the multiplier analysis or anything resembling it. The multiplicand is too low or is completely distorted. Kuznets's willingness to allow the reader to revise the estimates to a cost basis if so inclined (Vol. I, p. 34) falls flat if the national income aggregates he derives and uses throughout the book are inapplicable to the widely-current type of aggregative economic analysis. Kuznets himself applies his estimates to the multiplier principle (Vol. I, pp. 270-71) even though his estimates are not appropriate to the purpose.

The above criticism of Kuznets's treatment of government should not leave the impression that either government expenditures as a whole or the government deficit is the appropriate multiplicand of the multiplier principle. If we use a period analysis[1] it becomes clear that the multiplicand (in so far as it is a government item) should represent the net contribution made to national income by the government in the initial period. The total of government expenditures is not a correct measure of the government's initial "expansive"[2] impact on national income because the government may also have had an initial "restrictive"[3] impact on national income through its taxation and borrowing program. On the other hand, the excess of expenditures over tax revenues (*i.e.*, the deficit) is also incorrect as a multiplicand because it would imply that tax revenues in their entirety have an initial restrictive impact on national income. Since the tax revenues may have initial restrictive effects on national income far short of the amount of revenue involved (*e.g.*, where the tax merely absorbs part of an abundant idle balance), it is not correct to deduct from expenditures the whole of tax revenues, *i.e.*, it is not correct to use the budget deficit.[4] The true government element in the multiplicand would be derived by adding together the initially-expansive elements in government expenditures and debt repayment and subtracting the initially-restrictive elements in government taxation and borrowing. This yields the net expansive (or restrictive) impact of government in the initial period and is thus the appropriate multiplicand of the multiplier principle.[5]

[1] Such as that illuminated in the article by Fritz Machlup, "Period Analysis and the the Multiplier Principle," *Quart. Jour. Econ.*, Vol. 54 (Nov., 1939), pp. 1-27, and further applied in Professor Machlup's, *International Trade and the National Income Multiplier* (Philadelphia, Blakiston, 1943).

[2] The use of these terms in the present context is derived from A. F. W. Plumptre's article, "An Approach to War Finance," *Canadian Jour. Econ. and Pol. Sci.*, Vol. 7 (Feb., 1941), pp. 1-12.

[3] *Loc. cit.*

[4] *Cf.*, A. H. Hansen, *Fiscal Policy and Business Cycles* (New York, Norton, 1941), p. 190 n.; H. H. Villard, *Deficit Spending and the National Income* (New York, Farrar and Rhinehart, 1941), Part III; C. O. Hardy, "Fiscal Policy and the National Income," *Am. Econ. Rev.*, Vol. XXII (Mar., 1942), pp. 103-10; and J. W. Angell, *Investment and Business Cycles* (New York, McGraw-Hill, 1941), chap. 12 and p. 325 n.

[5] In a statistical study the "net expansive (or restrictive) impact of government" could be approximate in only a very rough way because of the complicated theoretical issues involved.

These comments refer to estimates of the government *multiplicand* when used in a period analysis. In obtaining the *aggregate* of national income for any period it would not be correct merely to add consumption and private investment expenditures to the figure for the net government expansive impact. The government item has already been reduced to the extent of the current restrictive effect on consumption and investment. To add the thus-restricted consumption and private investment figures to the government item would result in an understatement of national income. Hence, in aggregating national income, the consumption and private investment figures should be added to the whole of government expenditures.[6]

There is another questionable point in connection with Kuznets's valuation of government services. In his treatment of taxes as payments for government services he suggests a novel theory of tax shifting: "Taxes are payments to governmental agencies for their services; and when they are notably higher than the cost of specific governmental services given in return, enterprises that produce goods like tobacco, liquor, and gasoline include them in the price of the goods, and their net income is usually not affected" (Vol. II, p. 426). Here Kuznets makes the criterion of shiftability whether the tax is higher than the cost of specific governmental services given in return. This can only with the greatest difficulty be regarded as consistent with contemporary tax-shifting theory which relies so heavily on such conditions as degree of competition, elasticity of demand and other items. Moreover, in regarding taxes as payments for government services he is implicitly assuming that taxes in their entirety are based on the benefit principle alone.

Valuation of Intermediate Consumption. Again, in evaluating intermediate consumption, Kuznets seems to run into error as a result of his insistence on the use of market prices. He claims that intermediate consumption should be valued at market prices. "Since it is to be deducted from the total value of products to yield the net, it should be as far as possible in terms of the yardstick used for the full value of completed products—the current market price, with whatever modifications needed to adjust for changes over time or to cover uncompleted production" (Vol. I, p. 42). And he adds, "This conclusion is so obvious as to seem axiomatic."

The conclusion is neither obvious nor axiomatic for finished goods awaiting sale since income is produced by the process of marketing, through the creation of place and ownership utilities. The goods on dealers' shelves acquire the current market value only after they are transferred to the final place and person involved in the market. This requires the disbursement of various items which ultimately form income—salesmen's salaries, advertising expenses, freight costs, etc. To value inventories at outgoing market prices therefore distorts the income picture.[7] In effect, profits are overstated since the market price is here obtained without allowing for the expenses of

[6] This is the approach used in the British White Papers and by the Department of Commerce in recent issues of the *Survey of Current Business.*

[7] Valuing inventories of raw materials at incoming market prices does not result in this difficulty.

marketing.[8] It would be more nearly valid to allow inventories to fluctuate in relation to market prices, but retaining a differential reflecting marketing expenses.

II. *Interpretation of the Estimates*

In spite of any differences of opinion which may remain regarding the principles involved in making the estimates there can be no doubt that Kuznets's final results form an invaluable contribution to the economic history of the period. The reader is referred to Part II of the book for extremely enlightening factual information on the relative importance of various components of national income and the behavior of these components during the course of business cycles. On the whole, Kuznets avoids any theoretical interpretation of his statistics but from time to time he does draw implications on important current issues. There are a few instances where his theoretical analysis may be open to question.

Trend Analysis. After describing the severe contraction following 1929, Kuznets says: "That this decline can hardly be considered an approximation to the secular trend is seen when we go further back" (Vol. I, p. 138). He then considers the possibility that the downward movement will continue and he suggests, "But it seems more plausible to view it as the downward phase of a prolonged swing which may soon be succeeded by a resumption of the long term rise" (Vol. I, p. 139).

This would seem to be a rather dangerous way to look at long-term trends. The subject of trends in general, and of the future trend of the American economy in particular, cannot be dismissed in so summary a fashion. In the matter of trends in general the combined historical, theoretical and statistical approach of Schumpeter[9] suggests the complexity of the problem while, in the matter of the future trend of the American economy, we must examine the stagnation thesis and with it the whole of American economic development.[10]

Prognostic Value of Business Savings Statistics. In his discussion of business savings Kuznets suggests that statistics of business savings of an enterprise, "have a high prognostic value, since usually enterprises that enjoy large positive net savings demonstrate thereby their favorable market position and are likely to expand their activities in the future; while enterprises sustaining large negative savings will naturally be forced to curtail their activities. What is true of enterprises is, somewhat less directly, true of industries" (Vol. I, p. 78).

Again it may be suggested that Kuznets dismisses a very complicated problem in too casual a manner. If nothing else, his analysis is excessively

[8] It is conceivable that Kuznets has place and ownership utilities in mind when he speaks of "uncompleted production," but the context makes it seem more likely that he is referring only to form utilities.

[9] J. A. Schumpeter, ***Business Cycles: A Theoretical, Historical and Statistical Analysis of the Capitalist Process*** (New York, McGraw-Hill, 1939), Vols. I and II.

[10] *Cf.* Hansen, *op. cit.*, chap. 1.

ex post. Investment depends largely on business expectations and on the availability of capital funds. The volume of business savings does, it is true, influence both of these factors. But with sufficiently favorable expectations and with a receptive capital market, a firm need not be deterred from investment merely by the fact of negative savings and it certainly will not "naturally be forced to curtail" its activities.

Statistical Testing of the Multiplier Theory. The application which Kuznets makes of his statistics to the multiplier theory deserves some attention. Kuznets finds that there is little relation between changes in net capital formation and changes in national income (Vol. I, pp. 270-71). In some cases the two change in opposite directions, as in 1924, 1926, 1928, 1933 and other years. He concludes that his estimates "fail to support an assumption of constancy in the ratio of *changes* in capital formation to *changes* in national income (or of capital formation to national income), in either the rising or declining phases of business cycles, a constancy that seems to be implicit in most discussions of 'the multiplier' " (Vol. I, p. 271).

Although Kuznets's conclusion on the variability of the multiplier is supported by other studies, his analysis is inadequate since he uses annual figures and allows for no time lag. The discussion of the multiplier theory has progressed far beyond the stage where non-lagged annual data are appropriate. Incidentally, the new quarterly figures of the National Bureau[11] and the Department of Commerce[12] provide the basis for a new attempt at a statistical testing of the multiplier principle.[13] Even with the use of annual data a result somewhat different from that of Kuznets was obtained by Kalecki through the introduction of a lag into Kuznets's earlier figures.[14]

Savings Embodied in Capital Formation. Kuznets defines aggregate savings and investment so that they are equal in any period. He then proceeds to match *components* of savings with corresponding amounts of investment. Although he is very careful in trying to avoid a misunderstanding of his breakdown of capital formation by savings components (Vol. I, pp. 276-77), he nevertheless says that the estimates "do reflect approximately the shares of net capital formation, *i.e.*, of real investment financed from the current income of different groups of enterprises and individuals. In that sense they measure the contribution of various types of savings from current income to additions to the stock of the nation's capital goods" (Vol. I, p. 278).

This statement and Kuznets's whole discussion of the subject may give the impression of a direct causal relation between a given component of savings and a corresponding quantity of net capital formation. Such direct causal relation does not exist. In fact, the relation may be inverse: aggregate

[11] Harold Barger, *Outlay and Income in the United States, 1921-1938* (New York, Nat. Bur. Econ. Research, 1943).

[12] Published in recent issues of the *Survey of Current Business*.

[13] See Richard Stone, "National Income in the United Kingdom and the United States of America," *Rev. Econ. Stud.*, Winter, 1942-43, pp. 1-27.

[14] M. Kalecki, *Essays in the Theory of Economic Fluctuations* (New York, Farrar and Rhinehart, 1939).

net capital formation may be low precisely *because* individuals' savings are high. An individual's savings may not only fail to contribute to investment but may actually detract from investment by restricting aggregate demand. The equality of *ex post* savings and investment does not in any sense justify the implication that the components of savings measure the "contribution" to net capital formation. As a result of Kuznets's implicit assumption regarding the *direct* causal connection he has a difficult time explaining why individuals' savings were high in 1930 at a time when aggregate net capital formation was low (Vol. I, pp. 282-83). Under the more readily justifiable assumption of an *inverse* causal connection between individuals' savings and aggregate net capital formation, the explanation follows with less difficulty.

The outstanding merit of these volumes is that they record in full detail and in excellent form the problems, the fears and the doubts encountered in the unmatched income-estimating experience of Professor Kuznets and his staff. Kuznets goes to the greatest pains in pointing out the pros and cons of each decision to be made and he bends backward in exposing the limitations of his estimates. The discussions of the statistical theory involved in income-estimating are of the utmost value, the factual information constitutes an important contribution, and even the occasional ventures into economic theory, although not always happy, are an encouraging departure for the National Bureau as there is no doubt that the implications of a theoretical-statistical analysis can most safely be drawn by those who are most familiar with the limitations of the estimates themselves. The tremendous amount of thought and effort which must have gone into the books are well accounted for. The two volumes are a monument to the work of the National Bureau and they will remain for a long time the standard reference book on most of the intricacies of income-estimation.

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Money and Banking; Short-Term Credit

The Functions of the Commercial Banking System. By J. BROOKE WILLIS. (New York: King's Crown Press. 1943. Pp. viii, 225. $3.00.)

Occasionally, when we think something is dead and buried, its ghost rises to haunt us. Between 1926 and 1932 the old 90-day self-liquidating commercial loan—the idol of the commercial loan theory of banking and designated in the Federal Reserve act of 1913 as "eligible paper"—fell from 16 to 9 per cent of all bank earning assets, while its volume contracted by 50 per cent. After 1932 these loans were so negligible in importance that data on them were no longer published. The decline and fall of this type of asset was so pronounced by 1935 that the entire definition of "eligible paper" was overhauled (and term loans recognized as legitimate) in the Banking act of 1935 and subsequent supervisory regulations. Yet Mr. Willis's book on banking

functions appeared upon the scene as late as this year, quaintly proposing that the banks limit themselves to this sort of lending, and staunchly advocating the belief that "the function of the banking system is to serve as a clearing mechanism to facilitate the exchange of goods rather than as an active agent for the promotion of price stability, capital formation, or deficit financing."

Mr. Willis strongly opposes the acquistion by banks of any assets which are not self-liquidating, which are considered medium or long term in nature, and which represent the financing of fixed assets (or government expenditure or fixed capital or consumer expenditure) as opposed to working capital. This argument rests on four main assumptions: (1) Money and credit are essentially different in nature ("Credit . . . means the power to command goods and services without actually possessing money"), and therefore banking "is regarded as a means of offsetting or clearing claims expressed in money." Money is not recognized as such "until it has been so designated by constituted authorities as standard money or legal tender." (2) The liquidity of the banking system is seriously endangered if the banker departs from the narrow path of "eligible paper" as once conceived. (3) Any other type of asset is too risky and unsound. And, (4) ". . . credit which is extended on the basis of capital goods has an inherent tendency to cause fluctuations in the level of prices."

The fundamental error in Mr. Willis's arguments may be stated as follows. No bank asset, no banking system, in fact, is "sound" or "liquid" in and of itself; nor is any business concern or government security. The determining factor in each of these cases is and must be the level of national income, and, even more important, the level of national income *anticipated* in the future.

This vitally important consideration is never given adequate attention in Mr. Willis's book. No form of money, no matter how it may be designated by issuing authorities, can retain its value unless it functions in a healthy economy. And similarly, bank credit cannot function unless there is enough confidence in the economy as a whole for depositors to entrust their funds to the banks and for one man to accept another's check. The soundness of the banking system does not depend upon the maturity date of its earning assets or necessarily upon the goods and services on which those assets are based; it depends upon a stable and high level of income and upon an environment in which sudden depreciations in the value of bank assets will not occur. Under such conditions liquidity is of secondary importance, and the banks need only maintain sufficient liquid resources to meet normal cash demands of depositors and customers. Thus there is nothing inherently unsafe in a term loan, if the borrower has good earning prospects and the future is fairly certain and bright. Finally, we all understand enough about inflation by this time to know that an expansion of bank credit based on capital goods results in a rise of prices only at full employment, such as wartime, when the output of consumer goods cannot keep pace with the enhanced demand arising from that bank credit expansion.

If these counter-arguments are accepted, it then appears that a much

broader concept of commercial banking is possible. Any activity of the banking system which promotes prosperity by that very process serves to maintain the soundness of the banks. If the banks help to meet the demand for capital goods, the resulting rise in the level of investment will increase employment and income, thus supporting the value of bank assets. If the banks purchase government securities to finance a program of deficit spending—carried on to compensate for a deficiency of private spending—the banking system will retain its soundness because the economy will function at a higher level of income and employment.

This is not to say, of course, that the banks should make unsound or unnecessarily risky loans; they must under all circumstances avoid extending credit to borrowers who would be a poor bet under any conditions. But the criterion of soundness should be applied more to individual loans and less to any broad category. It is also of obvious importance that the banking system and its depositors must be protected by such techniques as deposit insurance and a vigorous central bank which stands ready to support bank assets in the eventuality of a crisis. The banks can function only in an environment of confidence, and these procedures serve to create and maintain confidence. But it must be realized that an economic crisis does not result from the nature of bank assets; it arises from a decline in the prospective rate of profit and the subsequent cessation of capital building activities. When that occurs any banking system would be in serious danger of collapse. It is therefore incumbent upon the banks and the monetary authorities to see to it that the banks operate in a manner which will support the marginal efficiency of capital and the total volume of expenditure in the economy.

Three chapters of Mr. Willis's book, aside from those subsumed in the above discussion, are of particular interest. His opening chapter, a summary of the antecedents of contemporary banking functions, is extremely valuable. Chapter VII, which is concerned with the changing character of commercial banking, ably traces the revolution in the nature of bank assets since the end of World War I. The chapter on bank capital not only emphasizes some important facts frequently disregarded by many of us, but also makes some provocative recommendations for public policy.

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Accounts Receivable Financing. By RAYMOND J. SAULNIER and NEIL H. JACOBY. Finan. research prog.: stud. in bus. finan. (New York: Nat. Bur. Econ. Research. 1943. Pp. xv, 157. $2.00.)

This volume is one of a series of studies in business financing, published under the financial research program of the National Bureau of Economic Research. As such it is naturally largely a factual record of this type of financing, amply supported by available data. Estimates are presented when the data are not adequate to permit exact conclusions.

The study is divided into seven chapters. Chapter I is concerned with the

development of accounts receivable financing. This type of financing is defined and it is noted that the study is confined primarily to the financing of "open accounts receivable as distinguished from the financing of instalment notes receivable" (p. 17). The distinction between factoring and non-notification receivables financing is then made clear. Factors buy receivables "without recourse," and the debtor is notified that payment is to be made to the factor directly. In non-notification financing, the debtor is not notified. This type of financing is the type usually performed by commercial finance companies and the commercial banks. Here the accounts are sold or assigned "with recourse" on the seller of the goods. He takes the risk of losses and returns of merchandise and the buyer of the goods pays him rather than the finance company or the bank.

Factoring is a business of long-standing, while non-notification financing is a relatively recent development, especially with the commercial banks which have turned to this type of business in recent pre-war years, partly to assist customers whose credit standing was somewhat questionable and partly to put to use idle excess reserves.

Subsequent chapters deal with the volume of receivables financing, institutional facilities for handling this type of business, the characteristics of clients, credits and associated services, policies and procedures, and charges, expenses and profits. These chapter headings are in large part self-explanatory. Only a few items will be singled out for further comment.

Although estimates of volume of business for factors are given back to 1928, attention will be given only to the 1941 figure, which amounted to roughly 1.15 billion dollars. Major finance companies are estimated to have done 466 millions of business in the same year. Loan balances outstanding for commercial banks at the end of 1940 were 118 millions. Adjusting this figure for 1941 would bring it up to about 135 millions. This, however, is a year-end figure. Total volume for the year was probably close to 952 millions. In other words, for all three types, total 1941 receivables financing was in the neighborhood of 2.6 billion dollars. This amount, while substantial, is naturally small in relation to total business loans.

On the investigation of credit risks, it should perhaps be noted that factors have to be more exacting than the non-notification financers since they take the risk of loss.

In the past the factoring companies have dealt largely with the textile industry, while the commercial finance companies and the banks have a more diversified list of clients. Some factors recently, however, have entered a wider field.

In conclusion, it should be pointed out that the study under review is a valuable one to students of finance. The National Bureau's studies in various specialized types of business financing, information on which has been, at least to a large extent, unavailable, have been and will be a real contribution to students interested in the financing of business enterprise.

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Business Finance; Insurance; Investments; Securities Markets

College and University Investments and Income, 1925-41. By J. HARVEY CAIN. (Washington: Am. Council on Educ. 1942. Pp. v, 29.)

If you were the financial officer of a college or university how would you invest its endowment funds in these years of great economic and social change? This is the prime question answered by the latest publication in the financial series sponsored by the American Council on Education. Commencing in 1937, the Council began publishing selected reports of its committees and studies of its staff. The publications were grouped in several series each dealing with different problems of American educational institutions. Series III comprising the Council's Fnancial Advisory Service treats with the problems of finance. Twenty studies in all have been issued to date, covering college and university financial practices and problems. Included among them are studies of educational finance, accounting methods, business organization, inventories of plant assets, real property depreciation, and investment experience.

The Council's publications devoted to a statistical and interpretative review of college and university investments and income are particularly valuable. The latest of these, prepared by J. Harvey Cain, former director of the Council's Financial Advisory Service, covers the 16-year period 1925-41. Here, concisely packed in 29 pages, is the investment experience of various groups of educational institutions widely distributed about the country. The story told by the figures is a significant one. It will be of interest not only to college financial officers but to all who are interested in the administration of institutions in many fields whose common problem is where and how to get the best results out of investment funds in these days of precarious finance.

Colleges and universities invest the bulk of their endowment funds in four major fields: bonds, stocks, mortgages, and real estate. Investments in plant, loans to other funds, and miscellaneous commitments make up the balance of their portfolios. What general trends emerge from this 16-year experience, particularly from the influence of the great changes in the last decade? Holdings of bonds and mortgages have decreased while investments in stocks and real estate have increased. The movement from bonds to stocks seems to be fairly general in the holdings of utilities, industrials, and rails. While slight increases have been made in holdings of preferred stocks, by far the greatest increases are in the common. Purchases of federal government bonds are rising, but the condition is probably too recent to provide settled data on the full state of affairs. As shown in other studies and confirmed in this one, the average rate of return on endowed funds dropped to its lowest point in 1932, which is generally considered to mark the bottom of the Great Depression. But as between 1939 and 1941 a slight fractional gain in the average rate is registered, the figure rising from 4.03 to 4.07 in the yield.

The uncertainty of the times is not only reflected in the turn from one type of security to another, as from bonds to stocks. It also shows up in the general make-up of the entire portfolio. Here, despite some unusual cases of heavy concentration in one field, there is a clear tendency toward diversifica-

tion of holdings. The trend is much more pronounced in institutions with smaller funds to invest, but even the larger investors are moving in the same direction. So long as uncertainty clouds the business picture, large and small investors alike are trying to avoid being caught with all their eggs in one basket.

More selectivity, too, is being made of particular types of investments, with a view toward steering the financial ship clear of dangerous rocks and shoals. "War babies" are obviously being avoided; and while considerable money is going into common stocks, there is a feeling that increased taxation will make such investments a poor hedge against inflation. Indications are that companies dealing in foodstuffs, clothing, essential commodities, and natural resources are being increasingly favored as sources of investments, as are companies with a record of good management and lighter tax burdens. Investors are trying to anticipate, presumably to avoid, enterprises which are likely to become government monopolies, such as transportation and other public service companies. There is a tendency toward shorter-term maturities, and the uninvested cash position of most institutions is at a slightly higher level.

Aside from these general trends, no clear pattern of investment practice emerges from the 16-year experience so admirably set forth in this study. This is confirmed in the tables as well as by the widely different views expressed by financial officers and quoted by the author. General diversification, broad shifts in types of investments, and more careful selectivity of particular investments in keeping with the nature of the times seem to be the only guiding principles in a day when "there is neither chart nor compass for the investment manager."

In selecting these guiding principles or patterns of investment practice, the financial committees of endowed institutions are exercising sound investment procedure. It is suggested, however, that financial committees might well consider and give greater attention to the matter of *timing* in their investment practice. Good results have long proved to me that knowing *when* to buy is just as important as knowing *what* to buy. This means that portfolios cannot be left inactive for very long periods of time. They require frequent appraisal and almost constant corrective action. Expert investment counsel and vigorous and experienced committees will have to replace those of the formal type if institutional endowment funds are to weather the storms of tumultuous times.

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Public Control of Business; Public Administration; National Defense and War

Price Control—The War Against Inflation. By ERIK T. H. KJELLSTROM and others. (New Brunswick: Rutgers Univ. Press. 1942. Pp. x, 171. $2.50.)

This book consists primarily of four short essays on price-control practice

in as many foreign countries. There is one such essay on Sweden by Erik T. H. Kjellstrom of Rutgers University, one on England by Gustave H. Gluck, formerly with Unilever Ltd., another on Canada by Ivan Wright of Brooklyn College, and finally one on Switzerland by Per Jacobsson of the Bank of International Settlements. Mr. Kjellstrom appears to have been the organizing spirit of the undertaking and is also responsible for a brief introduction. As a whole the work is descriptive rather than analytical while the style is seldom technical and even occasionally popular. The pieces on Sweden and Canada each include statistical appendices providing a sketchy but useful factual outline of the national economy in question. The lack of an index is not serious.

The choice of countries considered is on the whole a happy one because of the diversity of their circumstances. Thus Sweden and Switzerland, as neutrals with relatively small preparedness programs, have had less to fear from a rapid expansion of the monetary supply, due to unbalanced budgets and bank borrowing, than have such belligerent nations as England and Canada. The problem of Sweden and Switzerland is that they have been within the lines of the allied blockade since the beginning of the war, and that, since the invasion of Norway and the complete occupation of France they have, respectively, been engulfed more than ever within the German economic sphere. Even while they still had limited access to transatlantic trade, the shipping shortages and increased marine insurance rates caused a diminished volume and higher price of imports; and this, in turn, has exercised an upward pressure on Swedish and Swiss price levels. The effect of the blockade has also been to render the remaining European neutrals dependent upon German-controlled sources for many important materials and products. Accordingly it has no longer been necessary for Germany to export, as she did in pre-war days, at prices considerably below those exacted at home.

On the other hand, the threat of inflation to England and Canada comes from the fact that only about half their economic efforts are devoted to civilian consumption and that their unbalanced budgets are largely being financed from inflationary sources. The English problem is, however, in some ways radically different from the Canadian in that Britain is accustomed to import the bulk of her food and a substantial portion of her raw materials: accordingly the British, unlike the Canadians or ourselves, are influenced by shipping costs and price policies in supplying markets overseas.

Nonetheless, one cannot help wishing that there had been some description of German-control measures. An account of the German experience would be of especial interest because the price controls in that country are, besides being in part like our own, of longer duration and wider scope than those of the nations actually considered, and their unfolding consequences are more replete with warnings to ourselves. Although there is necessarily some overlapping in the Swedish and Swiss accounts because of the substantially similar situations in which these two nations find themselves, this duplication is in part offset by the diversity of authorship and regulation.

A reading of these four descriptive essays reveals many interesting comparisons and contrasts among the administrative programs of these four

nations and our own. Much of Swedish price control is ostensibly voluntary. This has probably been possible because the government has all the necessary powers lurking in the background, the trade associations are large and well disciplined, the state has a few but strategic monopolies, and foreign trade is closely supervised. There is, moreover, a heritage of explicit price control over various utilities and many agricultural products.

The British anti-inflation drive has been notable for drastic taxation, centralized bulk buying by the government in foreign markets on favorable terms, bonuses for the cultivation of land previously unploughed and subsidies so that the retail prices of bread, milk, meat, flour and bacon can be held at the levels of December, 1939.

Canadian controls, precursors of most of our own, differ from the other countries discussed in this book in that they have taken the form of an over-all ceiling on retail prices charged by individual sellers during a historical period (September 15 to October 11 of 1941). In addition, there has been a wage "freeze," and explicit provisions have been promulgated for tying wage and price levels together by means of a "cost of living bonus" which is calculated with reference to the wholesale price index of the Dominion Bureau of Statistics. Canada has also had rent control and the "roll back"; but when the latter has threatened to cause a falling off in production, a subsidy has occasionally been granted either the producer or processor.

Switzerland, like Sweden, has in general followed the policy of allowing wage increases approximating one-half of the estimated increases in the cost of living. The Swiss federal government has refrained from subsidizing home production but has paid some of the cost of imported wheat and feed. There has, however, been a powerful agitation for milk subsidies by the domestic dairy interests.

In the main, the Swiss and Swedish governments have faced the fact that the rising price levels are largely due to foreign circumstances outside their control, and, for the most part, they have confined themselves to limiting profiteering, preventing purely speculative business, and adjusting the prices of many goods to their new costs of production or importation. In all four countries the officials realize that heavy taxes and personal savings are an indispensable part of any successful program against inflation. The important functions of the price mechanism seem to be most clearly recognized in Switzerland and most completely overlooked in Canada.

Although the primary object of this book is descriptive, it is a little distressing to note the poverty of the analysis. This complaint applies most to Kjellstrom and Wright and least to Gluck and Jacobsson. One sometimes gets the impression that economic efficiency is of no consequence and that the only possible object of public control is to prevent prices in general from rising. That subsidies can be inflationary in their effect is overlooked. That rationing can be wasteful because it may lead to a malallocation of personal expenditures and national resources is ignored. That a high price may increase production and slow up use is too often forgotten.

It would have been reassuring to find greater recognition of the fact that price *levels* (real value of money) can perhaps best be controlled through

fiscal devices and that the object of regulating price *relations* (guidance of production and consumption) is not to perpetuate obsolete patterns of the past, or even to imitate belatedly what free markets would have effected of themselves, but rather to "head off" prospective surpluses and deficits.

Both persons interested in comparative economics and specialists in price control should find this an interesting and worthwhile book, providing they are uninterested in the incidental theoretical problems or are ignorant of recent economic events in Sweden, England, Canada and Switzerland. Many persons, including this reviewer, can satisfy one of these requirements. Accordingly this work may prove to be a popular publication.

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The Federal Power Commission and State Utility Regulation. By ROBERT D. BAUM. (Washington: American Council on Public Affairs. 1942. Pp. xi, 301. Cloth, $3.75; paper, $3.00.)

Briefly stated, the purpose of Mr. Baum's study is "to examine one sphere of the external administrative and jurisdictional relations of a Federal commission, that concerning its relations with the states." The selection of the Federal Power Commission is appropriate because the several phases of its congressional development changed the character of the relations and the effect could be observed. While the author treats the intergovernmental relations primarily from the viewpoint of the F.P.C., balance is maintained by presenting the views of state commissions and their exponents.

In the period beginning in 1920, the Federal Power Commission was little more than a glorified interdepartmental committee composed of the secretaries of war, interior, and agriculture. It was the congressional product of a long controversy between conservationist and private power groups over federal control of *water power* projects on navigable streams and in the public domain and national forests. In this period the Commission had very limited funds, its personnel was borrowed from the three departments, and its authority was comparatively limited in scope.

In the period after 1930, the Commission was placed on a better foundation. Reorganization provided full-time commissioners and a permanent staff of which approximately one-third is now in field offices. Its authority has been extended to cover interstate electric power, natural gas, flood control, and special surveys of national interest, as well as specific assignments and emergency situations. Moreover, much of this authority has been clarified by adjudication of the United States Supreme Court.

The attitude of Commission and of states is tempered by the scope of Commission jurisdiction and by judicial recognition of Commission authority. In the earlier period the Commission used a gloved hand in its contacts with the states although it maintained a firm stand on principles. For their part the states sometimes coöperated, sometimes actively opposed, and many times were not interested in what the Commission was doing. In the recent period,

the attitude of the states seems generally to be one of more favorable acceptance of Commission coöperation, but there are notable exceptions.

Jurisdictional disputes were often triangular: federal commission, state commissions, and companies. Companies claimed state jurisdiction before the federal commission and federal jurisdiction before the state commissions. State commissions did not want their prerogatives preëmpted by a federal commission, while the federal commission could not delegate its responsibilities to a state commission. In addition to an assertion of "state's rights," state commissions are prone to consider problems from the sole viewpoint of state interests, which may conflict with the interest of neighboring states or with the national interest. The necessity of the broad national viewpoint conditioned the Commission's judgment not only in jurisdictional disputes but in other regulatory activities. The F.P.C.'s administrative practice of notifying states of all applications and other matters in which the states may be interested has tended to minimize friction and to promote collaboration. The requirements of company compliance with state regulations and of the interchange of state and federal application material have also contributed to better relations.

Several activities of the F.P.C. are outstanding in their influence upon state regulation. Probably the most important is the development and sponsorship of a uniform accounting system for utilities with carefully defined accounts which leave little leeway for misunderstanding or manipulation. As the fundamental basis for practically all regulatory control, accounting must be carefully prescribed, accurately followed, and uniformly maintained. Under the Federal Water Power act of 1920, the Commission was obligated to determine the actual legitimate original cost and "net investment" of licensed projects to be used in rate making and in other license provisions. Since emphasis was placed upon original cost, the Commission could not delay its determination without undue risk of loss of original records. State commission accounting requirements were not restricted as is the F.P.C. requirement, and therefore the F.P.C. prescribed its own system of accounts. The maintenance of two sets of books, one for state and one for federal regulatory control, was wasteful and the F.P.C. endeavored to work out a uniform system with state commission representatives. Depreciation and original cost entries were the principal points of disagreement.

While some progress had been made toward a single uniform accounting system in the numerous conferences and negotiations between federal and state commissions beginning in 1921, it was not until the act of 1935 extended federal authority over a large number of companies that definite results began to appear. In the preparation of the adopted system the state commissions worked closely with F.P.C. A Supreme Court decision upholding the Federal Communications Commission accounting system, which was almost identical with the F.P.C. system as to original cost, quieted the opposition of public utility companies. The F.P.C. system became effective on January 1, 1937, and the F.P.C. estimated that, on the basis of assets and revenues, companies representing more than 90 per cent of the electric industry were re-

quired to use it. A uniform system for natural gas companies was adopted in November, 1939. Whether the accounting systems continue to function in the future will depend upon the continuation of the coöperative relations between states and F.P.C.

Other activities of the F.P.C. having far-reaching influence upon state regulatory control are the rate control of licenses and the preparation of comparative statistics on rates and costs of utilities throughout the United States. Statistical material of this nature gives consumers, utilities, and regulatory commissions a basis for judging the efficiency of utility operation and of regulatory control. As another aid to states, the F.P.C. lends its staff of experts to state commissions.

In closing the gaps in regulatory control over the interstate movement of power and gas, which had been held to be outside state jurisdiction, the F.P.C. has been given certain functions in the intercorporate relations of utilities. While some of the functions overlap similar state functions on intrastate facilities and services, relatively little friction has occurred. What conflict has arisen has been mostly over mergers. Statutory limitations on the Commission's authority in favor of state control prevent many difficulties which might arise otherwise.

An illustration of the coöperation of the F.P.C. with state commissions is an Associated Gas and Electric subsidiary investigation by the Pennsylvania Public Utility Commission which eventually led to the reorganization of the Associated system. Efforts of the state commission to examine records relating to holding companies' charges against operating subsidiaries were circumvented by the removal of the records beyond the jurisdiction of the state. The F.P.C., having national jurisdiction over interstate operations, could and did prevent such evasion.

This thorough, readable study ends with suggestions for the improvement of F.P.C.-state relations. Further collaboration could minimize "overlapping" of work which the author carefully distinguishes from "duplication." Throughout the study, the state viewpoint is treated objectively and references are freely made to sources dealing primarily with state and utility viewpoints.

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Industrial Organization; Price and Production Policies; Business Methods

Economics of American Industry. By E. B. ALDERFER and H. E. MICHL. (New York: McGraw-Hill. 1942. Pp. xv, 566. $4.00.)

This book, the authors state, represents the revision of mimeographed material which has been used by them in courses at the Wharton School of Finance and Commerce. Its purpose is to present an introductory survey of the principal manufacturing industries in the United States. The reviewer

has found it generally a model text which attains in a rare degree its purpose.

In outline, the book is divided into nine parts entitled: The Plan of Study; The Metal Industries; The Metal Fabricating Industries; The Nonmetallic Industries; The Chemical Process Industries; The Textile and Allied Industries; The Apparel Industries; The Food, Liquor and Tobacco Industries; and The Changing Pattern of American Industry. Each section covering groups of industries contains chapters surveying specific industries. These chapters represent a skillful blending of a discussion of technical processes and economic characteristics. The allotment of space differs, depending on the importance of the industry, although no uniform standard apparently was used to measure their respective importance. The automobile industry is surveyed in twenty-three pages, whereas fifty-six pages are devoted to iron and steel. Somewhat less space is given to the aircraft than to the woolen industry. The authors have included pottery, a relatively unimportant industry, yet omitted the farm machinery, business equipment, electrical equipment and appliance industries, which are not only significant in volume and invested capital, but in many respects typify American manufacturing.

Generally, the plan adopted is to discuss the significant facts under three major headings: (1) the place and structure of the industry in the economic order; (2) the historical development of the industry; and (3) the competitive aspects of the industry.

A book of this character may easily become a compendium of useful information at the sacrifice of interest. The data here are authoritative and well selected, and the authors have managed to avoid making the book look like a series of excerpts out of the Statistical Abstract or the census reports, with a little pale interpretative comment thrown in.

Throughout the volume, there is an attempt to break down aggregate statistics to meaningful per unit ratios. For instance, the capital requirements in the cement industry are set forth on the basis of the per barrel requirements for a modern plant (p. 180), and the ratio of cement to total costs of various projects is shown (p. 185).

Economic and social implications are not neglected. In discussing the automobile industry, it is pointed out that the great cyclical swings representing variations in production and sales rather than in use constitute, in effect, changes due to the public's increase and decrease of unused passenger car mileage. They add: "And, in the future, it is not likely that the companies will be able to bring costs into line with these sudden and irregular declines in sales. Auto workers are now unionized and already have written into their collective bargaining agreements provisions that cushion them against the adverse effects of slack work. Moreover, costs are not as flexible as formerly because of the increased relative importance of overhead. . . . In periods of prosperity earnings will have to be shared to an increasing extent with the tax collector and the workers. Accordingly, it is unlikely that the future of this industry will be as profitable as its past."

Earnings in the shoe industry are not as favorable as the authors indicate. The five leading companies whose results are used are hardly representative of the industry (p. 408). In the light of the emphasis given to the pattern

of competition—an emphasis altogether proper and set forth with a keen understanding of industrial practices—the significance of the congeries of products produced by many of the large corporations should have been considered as a factor of importance.

The chapter on the chemical industry suffers from brevity. It is questionable that the relative absence of bonds or preferred stocks in the capital structure of leading chemical companies has been due to the reasons assigned, *i.e.*, high rates of obsolescence and depreciation, large research programs, etc. (p. 255), since no consideration is given to the high average rate of earnings on invested capital.[1] The fact is that the important companies have a good rate of turnover and have been able to obtain funds for expansion through reinvestment of earnings or the sale of common stock. The source and disposition of funds, the changes in the capital markets and in the use of bank credit might well have been included to round out the treatment of profits and the financial aspects of industry.

The authors write clearly and have been able to sum up their views neatly without finding refuge in qualifying clauses so as to leave a thoroughly safe and flat statement. The bibliography is evidence of the varied sources of material on which the authors have drawn. The charts and illustrations have been selected carefully. The authors have done an excellent job in a difficult field. The reviewer knows of no other comparable study which rivals it in the combined fund of information assembled, the thoroughness of the analysis and the skill with which the background is handled.

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Mining; Manufacturing; Construction

Employment in Manufacturing, 1899-1939—An Analysis of Its Relation to the Volume of Production. By SOLOMON FABRICANT. Pub. no. 41 (New York: Nat. Bur. Econ. Research. 1942. Pp. xix, 362. $3.00.)

Supplementing the previous National Bureau report, *The Output of Manufacturing Industries, 1899-1937,* this volume investigates the changes during the past four decades in relationship between manufacturing output and employment. It discloses that manufacturing output in physical terms increased approximately fourfold between 1899 and 1937, that employment approximately doubled, and that the weekly hours of work per worker decreased from 60 to 40 hours. These findings lead to "what is perhaps the most striking figure in this report": "For a halving of the number of workers employed per unit of product and a one-third reduction of the working week amounts to a decline of two-thirds in the number of manhours employed per unit of goods produced. And if improvements in quality of products and savings of materials could somehow be worked into calculations, we should find an even

[1] See the study of chemical companies in the *Survey of American Listed Corporations,* published by the Securities and Exchange Commission.

greater cut in manhours per unit" (p. 18). These changes are described in detail for the major industrial groups and for individual industries. Manhour requirements for automobiles decreased rapidly throughout the period, whereas requirements in lumber industries and in locomotive industries actually increased on the average. Manhour requirements for individual industries and for the whole industrial groups are shown to be diverse in different periods of time, elements of war, depression and unexplained factors dominating these changes in particular circumstances.

The bearing of capital, prices and costs on unit labor requirements are considered and theories of industrial growth and decline are analyzed to throw light on the changes in the employment-output ratios. These discussions, although not as sharply pointed as they might be and depending perhaps too much for clarity upon restatement rather than upon precise and simple formulation, are well organized and contribute to the understanding of the materials.

The excellent appendices supply a full factual account of the changes and are, in the opinion of the author and the reviewer, the most important part of the book. In these is furnished a factual summary of employment in the manufacturing industries, estimates of aggregate personnel, the number of hours worked per week, data on the increase of manufacturing capital, and the derived indices of employment per unit of product and manhours per unit of product in the manufacturing industries. The estimates of physical output are those furnished in the previous volume with minor corrections. It should be repeated again that these estimates of physical output, combining Census materials with the other available evidence and making uniform and consistent statistics on a basis that gives representation to the new industries, represent a great amount of necessary work, and make a real achievement for economic and historical research, especially at a time when the demands for maximum production for war had turned our attention from value units to physical quantities. To combine with these data, equally consistent estimates of employment and manhours stud that crown of achievement.

The work is not without limitations. The weakest part of the book appears in the discussion of the reasons for the changes. The author is willing to admit this weakness and points to the fact that the data on output and employment tell only part of the industrial story. The data are limited to manufacturing industries and the causes of change outside of manufacturing are introduced only as external evidence. Furthermore, the data on output and employment in manufacturing industries do not contain all the information necessary to explain their relationship. The influence of increasing capital and other possible parameters is not considered statistically. The physical counterpart is that of trying to explain the relation of pressure of a gas and its volume, without consideration to its temperature. The author's plea of the absence of sufficient data on capital changes and the immeasurability of other factors must be offset by the complete neglect of the important developmental work of C. W. Cobb and P. H. Douglas in attempting to state production variations as a result of changes in both labor and capital.

Other limitations implicit in the data spring from the thinking in terms of

particular products to the statistics stated in terms of industries. Output per manhours is a concept in terms of individual products. The author has not shaken off the confusion between commodity and industry (p. 143): "our series cover industries as defined by the Census, that is, they usually apply to groups of commodities."

The technical work is excellent throughout, although there are some misstatements of interpretation and fact. For instance, in the discussion of rank correlations on page 108, the inability of a rank correlation to measure the degree of relationship (as opposed to the indication that a relationship exists) is apparently overlooked.

Some generalizations appear unwarranted. It is stated (p. 20): "In particular, it is possible that improvements in quality were least noteworthy, if not actually negative on the average, in the period following 1929." The improvements in automobiles, refrigerators, streamliners and women's hosiery might be cited to support the contrary. Moreover, the simple change from babbitt to ball bearings in woodworking machinery after 1928 placed new machinery on a qualitative level quite distinct from that of the old. Such subtle changes may be widespread.

These slight limitations will probably detract little from the usefulness of the work, for it is obviously addressed primarily to the economic historian. Through Mr. Fabricant's labors, the task of analyzing the development of the American scene should be both lightened and improved by the provision of these better factual tools.

WILLIAM R. PABST, JR.

Tulane University

Agriculture; Forestry; Fisheries

American Agriculture, 1899-1939; A Study of Output, Employment and Productivity. By HAROLD BARGER and HANS H. LANDSBERG. Pub. no. 42. (New York: Nat. Bur. Econ. Research, 1942. Pp. xxii, 435. $3.00.)

This volume attempts the difficult task of presenting data on the agricultural output, employment and productivity of the United States from 1899 to 1939, and in a summary chapter to indicate the relative position of agriculture in our national economy.

The conclusion of the authors is that total output has been upward during the 40 years under discussion, but has fallen in terms of per capita population. In a separate chapter the output for individual products is treated, and this is a valuable source of reference. The demand side is discussed in connection with a résumé of the growth and present status of our knowledge of nutrition with statistical data on consumption of calories, vitamins and minerals. There has been a decline in the demand for food in terms of calories, a shift to more dairy products and "protective foods." In view of the leveling off of population and the inelasticity of demand for farm products, only a small increase in the demand for future agricultural output can be expected. Increased demand for farm products for industrial purposes and in foreign trade may

affect the situation, as may also government policies, but the authors do not expect much increase of demand from these sources (pp. 303-12).

On the supply side, improvements in technology are discussed. Farm machinery and especially the influence of the tractor are stressed. The statement that in only isolated cases have improved strains of plants increased yields is not convincing, even though the yields over the past 40 years are shown in Table 50. Too many factors besides yields *per se* are involved when figures for the entire country are presented. Improvements in animal breeding and feeding are discussed in a short section. The statement that "the art of feeding did not assume its present role until the exhaustion of the free range posed the question of what to feed" (p. 224), is typical of several others, probably due to the authors' lack of familiarity with American agriculture. In general, this chapter underestimates the increase in output attributable to improved technology. For instance, no mention is made of the fact that the tractor has reduced the number of horses and mules 45 per cent since 1919 and released from 35,000,000 to 45,000,000 acres of harvested crops and an equal area of pasture for other uses, principally for milk and wheat.

Unlike industry, where payrolls practically tell the story of employment, no such data are available for agriculture. The family, together with the hired man, makes up the "employed" on the farm. The authors review the Census attempts at solving the problem and accept two criteria: (1) the farmer plus adult male laborers, *i.e.*, those above 20 years reporting themselves as engaged in agriculture; (2) "gainfully employed" which includes the farmer, hired help and unpaid family labor. The authors reach the conclusion that "agricultural employment" reached its peak sometime between 1910 and 1920 and that it was lower in 1940 than in 1900 (pp. 294-95). The number employed becomes the basis for calculating the output per worker. Using 1900 as the base year, they conclude that the output per worker increased to an index of 154 by 1939, using the first criterion, and 176 using "gainfully employed." Another section deals with the still more intricate subject of labor requirements for crops per acre or per unit of livestock. In this the authors rely principally on the work of J. A. Hopkins.

The most controversial section is Chapter 8 dealing with the place of agriculture in the nation's economy. The authors state that agriculture's share in the nation's realized income shrank from 39.5 per cent of the total in 1799 to 12.3 per cent in 1937 and the gainfully employed in farming declined from 72 per cent of the total to 17.6 per cent. They call this a "relative stagnation of agriculture" in contrast to the spectacular growth of manufacturing, and reach the conclusion that there will be no increase in the number engaged in agriculture nor an increase in total output. There is also an implication that the growth of manufacturing is the "obverse" of the decline in farming (p. 310-14).

The fallacies are in part pointed out by C. Reinold Noyes (pp. 316-21). The reason for the preponderance of agriculture in the early years of our history was the presence of a vast public domain. The early farms had to be more or less self-sufficing, but today the American farmer not only feeds himself and sends a portion of his products abroad, but also feeds, clothes and supplies

industrial raw materials to sustain about five non-agricultural "gainfully employed" and their families. The reason for the "stagnation of agriculture" is its own efficiency, even though the less productive half of our farmers produce only 11 per cent of the products that enter commercial channels; the other half produces 89 per cent and could easily raise the 11 per cent. "Half of the farms of the nation are not needed to feed and clothe the non-farm people."[1]

The statements quoted above illustrate the deceptiveness of treating all agriculture as a homogeneous form of livelihood, when in fact it ranges from self-sufficing and part-time farming to "factories in the fields." Employment ranges from under-employed families on the small farms to migrant workers on the "factories"; consequently "output" per worker is likewise unsatisfactory statistically.

Furthermore, agriculture is not the "obverse" of manufacturing; one did not grow at the expense of the other. Immigrants furnished many laborers, and natural growth and the "surplus" farm population the rest. Except locally or in certain years industry did not cause a "drift from the land."

Since Dr. Noyes criticizes the methodology of the authors, this need not be repeated here. While the book furnishes much information, it is not complete, nor conclusive, and is unfortunate in some of its implications when it discusses the place of agriculture in our economy.

GEORGE S. WEHRWEIN

University of Wisconsin

Economic Geography; Regional Planning; Urban Land; Housing

The Tennessee Valley Authority—A Case Study in the Economics of Multiple Purpose Stream Planning. By JOSEPH S. RANSMEIER. (Nashville: Vanderbilt Univ. Press. 1942. Pp. xx, 486. $3.00.)

This study in public water resource policy shows itself to be a very craftsmanlike job that bears witness to its author's thoroughness in research. Dr. Ransmeier's book contains a wealth of material and it is doubly unfortunate that its presentation makes it difficult in parts fully to appreciate all details. This may be due to the difficulty of completely integrating a theoretical discussion with its application to and exemplification by the factors of a specific case, *i.e.*, the experience of the T.V.A.

The first part of the book is devoted to a description of the T.V.A. program. In this context Dr. Ransmeier discusses in great detail the technical aspects of this program and gives a comprehensive analysis of the T.V.A. resale power rates, including also the well-known problem of the "yardstick." It is especially helpful that Dr. Ransmeier, by his objective treatment, shows the true meaning and the limitations of the "yardstick" concept which, owing to its political implications, has tended to obscure any discussion of T.V.A. power policy.

[1] U. S. Department of Agriculture, misc. pub. no. 256, p. 5.

The main part of the book (Part II) is taken up by an analysis of the various theories of joint cost allocation which are illustrated by figures based on T.V.A. data. It gives a most comprehensive picture of contemporary thought and practice as regards this problem; in fact, it can be said that the discussion would have gained by a more concise presentation. The author finally comes to the conclusion that no realistic and sensible allocation of joint costs in multiple-purpose projects is possible. Hence, allocation as a cost-finding technique must fail. In the author's opinion, however, joint cost allocation is not an essential prerequisite to sound planning for multiple-purpose projects. This is in contrast, for example, to the opinion expressed by the National Resources Planning Board in its study, *Development of Resources and Stabilization of Employment in the United States.* In Part III of his book, Dr. Ransmeier then proceeds to put forward his own theory of planning multiple-purpose projects for water control. As he demonstrates it with great technical detail, a proper evaluation of his assumptions and conclusions would require a special study of this aspect of the problem.

In the closing chapter Dr. Ransmeier outlines his program for a coördinated federal water policy and his recommendations for the execution of a national water plan. The author discusses with great thoroughness all possible aspects of his plan and gives due emphasis to administrative details. It deserves careful consideration in post-war planning of water resources.

Summing up, it can be said that Dr. Ransmeier's book will be of considerable value to all those who are interested in the T.V.A. as an experiment in multiple-purpose water planning, as well as to those concerned with the theoretical problems of joint costs and their allocation.

BERTA ASCH GRUEN

Washington, D.C.

The Tennessee Valley Authority—A Study in Public Administration. By C. HERMAN PRITCHETT. (Chapel Hill: Univ. of North Carolina Press. 1943. Pp. xiii, 333. $3.50.)

A study in the administration of T.V.A. should be most welcome to all students of government, as the T.V.A. occupies a special place among public corporations and represents the first large-scale venture of the United States Government into the electric power field. But it is to be feared that Dr. Pritchett's study will not quite fill this bill. In his desire to give the reader sufficient background on the activities of T.V.A., Dr. Pritchett has leaned over backwards and devoted nearly half of his book to a description of the T.V.A. program. This is all the more unfortunate since he does not give a critical analysis of the program which, in the years since its inception, has undergone some changes in scope as well as emphasis.

The same lack of integrated analytical treatment is noticeable in the main part of the book on the administration of T.V.A. Th unique characteristics of T.V.A. as a public corporation are not brought out with sufficient clarity, while, at the same time, Dr. Pritchett has considered it necessary to relate at great length the internal strife between T.V.A.'s first chairman, A. E. Morgan, and his fellow directors. It is, of course, true that this feud showed up the administrative weakness inherent in a three-man board of directors, but this

does not justify a lengthy narrative of the various phases of the struggle, complete with quotations from press articles by the feuding parties. Moreover, here again, Dr. Pritchett's analysis does not probe deeply enough; he makes no mention of the fundamental differences that from the very beginning of T.V.A. divided A. E. Morgan and David Lilienthal on the question of the principal functions of T.V.A. It also is not very helpful to the reader's understanding that the organization and the functions of the Board of Directors are discussed without any direct reference to the T.V.A. as a government corporation with its greater autonomy of action.

The chapter on Personnel Administration which is used to exemplify T.V.A. administration methods is very well written and most informative. It is to be regretted, however, that the author has not accorded equally thorough treatment to other aspects of T.V.A. administration that are of greater importance to its program. This is surprising, as Dr. Pritchett, in the concluding chapter of his book, shows himself very much aware of the particular significance of T.V.A. as an instrument of national policy. It would be easy to take exception to some of the statements the author has made in that summary, but this review is not the place to argue the real meaning and accomplishments of T.V.A.

In conclusion, it may be said that, the above criticsm notwithstanding, Dr. Pritchett's study has the merit of drawing attention to a successful administrative venture of our government by presenting a very readable story of some of its many facets.

BERTA ASCH GRUEN

Washington, D.C.

Labor and Industrial Relations

The Tragedy of European Labor, 1918-1939. By ADOLF STURMTHAL. (New York: Columbia Univ. Press. 1943. Pp. xii, 389. $3.75.)

The author's explanation of the failure of the European Marxian parties runs this way: The labor organizations had too much the character of pressure groups and were not enough concerned with the fate of the community. When confronted with governmental responsibilities, the narrowness of the range of problems for which they offered constructive solutions became apparent. Throughout the whole period of the great depression the European labor parties had a social but no economic policy. They had no constructive program for dealing with the economic crisis itself. European labor was not politically mature enough to play a political and constructive part in this emergency. It was trade unionism that failed.

These statements are rather sound. But they need some complement.

It is obvious that pressure group policies are essentially antisocial and incompatible with the operation of a democratic system. They aim at privileges for various groups of citizens at the expense of the rest of the community. Thus pressure-group activities must result in a clash of group interests

and in a disintegration of the complex of social coöperation. Trade-union leaders are, of course, not prepared to admit this fact with regard to their own policies. But they realize it very well with regard to other pressure groups, for instance, farmers and small business.

It is noteworthy that no economic doctrine ever set forth the view that trade unionism could lastingly improve, within the framework of a capitalist society, the material conditions of all strata of labor. Marx himself did not believe in the blessings of trade unionism. He, therefore, recommended that unions change their program radically. They should not aim at higher wage rates and shorter hours of work, but at the abolition of the wages system as such. But even in the formulation of this program Marx was inconsistent. It is one of his fundamental teachings that, although socialism is bound to come "with the inexorability of a law of nature," there is but one way toward the substitution of socialism for capitalism, namely, the evolution of capitalism itself. For "no social system ever disappears before all the productive forces are developed for which it is broad enough, and new higher methods of production never appear before the material conditions of their existence have been hatched out in the womb of the previous society." Thus there is no need for pro-socialist parties. A consistent Marxian policy would have to be, as Mr. Sturmthal does not fail to suggest (pp. 85-86), a policy of outright *laissez-faire*. It should not hinder in a "petty bourgeois" manner, as the Marxians call it, the evolution of capitalism, but rejoice in the hope that it will bring mankind nearer to the final expropriation of the expropriators.

The European Marxians were not faithful to the tenets of pure Marxism in fighting capitalism. But unfortunately they were so entangled in the Marxian dogma of the class solidarity of the proletarians of all nations, countries and races that they were incapable of grasping Europe's main economic problem.

With the exception of Russia, all European countries are comparatively overpopulated. Natural conditions for production are less favorable in Europe than in other, comparatively underpopulated areas. With free mobility of labor there would be all over the world a tendency toward an equalization of wage rates (for the same type of work). But as the class interests of labor in the comparatively underpopulated countries have succeeded in barring access to foreign labor, the differences in wage rates and standards of living are perpetuated. Moreover, protectionism on the part of the countries with an excess production of foodstuffs and raw materials brings about a farther deterioration in the conditions of European wage-earners. The world is patently on the way toward autarky of every nation. In such a state of affairs what will be the lot of the predominantly industrial countries of Europe, as they can neither feed nor clothe their citizens properly out of domestic resources?

This is the problem which the nationalists of Germany and Italy want to solve by the conquest of ***Lebensraum***. This nationalist program is, of course, utterly vicious and unrealizable. But the labor leaders never ventured to refute it and to suggest another solution. They ignored the problem as such because it did not fit into the Marxian scheme. Yet, it is quite useless to deny the existence of a real problem. It was easy for the nazis and the fascists to explode the illusiveness of the doctrines of the "Left." They could triumph

because there was no intellectual opposition. The parties of the Left clung to an ostrich policy. As, thanks to the fifty years of fanatical anti-liberal propaganda, the few free traders and true liberals (*i.e.*, supporters of domestic and foreign free trade) who remained were without influence the nationalists did not encounter any effective resistance.

The Marxians were prevented by their economic prejudices from rebutting the economic content of the nationalist tenets. But they failed no less in debunking that part of their adversaries' doctrines of which the refutation required no economic knowledge at all, but just common sense. An essential article in aggressive nationalism's creed was the firm belief in the military invincibility of Germany's and Italy's armed forces. The Marxians never dared to attack this fable because they were anxious not to offend the chauvinist feelings of their fellow-citizens. They never openly told the people: You are inferior to your prospective enemies; you will never conquer the rest of mankind; the adventure planned by the nationalists will result in a crushing defeat.

Mr. Sturmthal does not see that his political friends have been overthrown by the nazis and the fascists in an intellectual battle. He does not even mention the fundamental principles of the nationalist program. Like all other Marxians, he disregards it entirely. It was this attitude on the part of the "Left" which made the intelligent German workers, whether they were members of the Marxian or of the Catholic trade unions, sympathize with the nationalist program long before these unions were forcibly incorporated into the Nazi Labor Front. Daily experience taught these workers that the problems which their leaders passed over in silence were the main problems of their nation and of their "class." As nobody told them that there is another way out they could not help finding the Nazi slogans persuasive.

It is a pity that Mr. Sturmthal excluded Russia from the scope of his work. Perhaps a treatment of Russian conditions would have brought him to an understanding of the difference between Russia on the one hand and Germany, Italy and Japan on the other hand. While Russia can live in economic self-sufficiency, Germany, Italy and Japan cannot. This fact alone provides the key to an interpretation of European events of the last twenty-five years.

Mr. Sturmthal gives us fine character sketches of the European labor leaders; he has succeeded in exposing their mediocrity and inability. These biographical notes form the most valuable part of the volume and should be read by every economist and historian. However, the author is at a loss to realize that not men failed, but philosophies, namely, the philosophy of Marxism and that of trade unionism.

It is unlikely that there will be in Europe, after the defeat of the dictators, either a resurgence of Marxism or of trade unionism. Against whom could the German, Italian, Polish or Czech unions direct their claims? There will be a tremendous shortage of capital, and it will be extremely difficult to find foreign markets for manufactures in this age of trade barriers and foreign exchange control. Every trade union success will immediately result in an increase of unemployment. Mr. Sturmthal is fascinated by the doctrines of Keynes and considers credit expansion and heedless government spending as

the panacea. But inflation is only a short-run remedy; in the long run, *i.e.*, after a few years, it leads to the slump and a deterioration of the conditions of the masses. Great Britain, with its foreign assets gone, will hardly be in a more favorable position than the Continent. The European industries will have but one means to fight the other nations' unswerving hostility against imports: low wage rates. This is a very gloomy outlook. But it is, unfortunately, more realistic than the optimistic illusions with which Mr. Sturmthal ends his book.

The real tragedy of European labor was that it abandoned economic liberalism and espoused doctrines essentially detrimental to its vital interests, first Marxism and trade unionism and then the desperado philosophy of aggressive nationalism.

LUDWIG VON MISES

New York

Management, Labor and Technological Change. By JOHN W. RIEGEL. Repts. of the Bur. Indus. Rel., no. 3. (Ann Arbor: Univ. of Michigan Press. 1942. Pp. vii, 187. $2.50.)

In this book, Dr. Riegel presents the results of a field study of the experience of management and labor with the administration of technological change. The study was begun in 1939 by the Bureau of Industrial Relations at the University of Michigan. Fifty progressively managed companies in twenty-five industries were surveyed during the following two years. In addition, three conferences, each attended by twenty business executives, were held at the University of Michigan and information about employee attitudes was obtained from interviews with 105 employees and union leaders in homes and union halls.

The sample was necessarily small and weighted with heavy manufacturing, especially automobiles, but it included enough other lines, such as watches and packaged foods, to make it a workable sample. More recent data were obtained from union contracts containing clauses dealing with technological change, some dated in the spring of 1942.

The author discusses the problem of technological change, using the customary economic analysis to show the long-time social gains if a competitive situation permits these to be passed on to the consumer, and the possible ills resulting from monopoly. He then focuses his attention on the immediate impact of technological change on management and employee, and discusses ways in which the interests of both may be safeguarded in the course of such a change. He regards changes as necessary from the point of view of management in order to maintain its competitive position, and also to keep its staff adjustable. Employees, however, customarily resist technological change, because of their fear of unemployment, either partial or full, and because of their fear of loss of earnings and loss of social status through dilution of skill. These fears have led union leaders in some instances which Dr. Riegel cites to block labor-saving changes. Dr. Riegel believes that much can be done by educating union leaders as to the importance of permitting change in order to maintain the competitive position of the company and thus insure jobs for union members over a longer period of time.

The author states that there is no single pattern for easing the impact of change, since devices have met with varying degrees of success in different firms, but he stresses the general rule of winning employee coöperation. Throughout he emphasizes the human factor. It is not even sufficient to have well-worked out clauses in a contract, if one does not have an accompanying spirit of understanding.

The first step in achieving coöperation when changes are contemplated is for management to work out all the details of the planned change so that both its technical and human costs are known in advance. Foremen must be "sold" on the desirability of the plan. Conferences with selected members of the rank and file prepare workers for change, stop unfounded rumors, and sometimes result in practical improvements in the original plan. In unionized plants, union leaders must be kept informed. Particularly it is well to have complete understanding in advance as to any contemplated adjustments in incentive wage scales.

To avoid displacing workers, it is recommended that changes be made at a time of expanding output, either seasonal or cyclical. This makes it easier to assign employees to other work. The author recommends the use of a plant-wide seniority rule which will concentrate the displacement on short-service employees. Employees displaced may be given furloughs which will retain their seniority rights until labor turnover or expansion of work permits their rehiring. Permanently displaced workers may be given dismissal compensation if the employer's finances permit.

In general, the author believes that private industry, rather than a governmental agency, should have the responsibility for the solution of the problem. Government should provide re-training and special aid through the public employment service in placing workers unemployed because of technical change. The author does not believe special compensation for technological change paid by a state agency is feasible. On the other hand, he does not think that employees receiving dismissal allowances from former employers should be disqualified for unemployment compensation by state agencies.

The section on union-management coöperation was evidently written before there was widespread interest in the Nelson labor-management production committees for these are not discussed. However, the author's sections on ways of administering employee suggestion plans and ways of adjusting incentive wages after technological change would prove of value to members of such committees. At the present time these committees are meeting with success in many areas. Labor has been coöperating, it appears, partly because of a desire for greater war production and partly because in the present labor market the usual fear of unemployment is no longer present. In the reviewer's opinion, every effort should be made to carry this coöperation over into peacetime. The devices outlined in this book should prove helpful to management and labor alike in continuing that coöperation.

MORRISON HANDSAKER

Occidental College

The History of Legislation for the Protection of Coal Miners in Pennsylvania, 1824-1915. By ALEXANDER TRACHTENBERG. (New York: Internat. Publishers. 1942. Pp. xvi, 239. $2.75.)

The author states in his Preface that this volume was prepared while he was a graduate student at Yale University, and also that at one time it was scheduled for publication by the United States Bureau of Labor Statistics. It was published last year as originally prepared for publication some twenty-five years ago, together with an introduction by the late Professor Henry W. Farnam. The first two chapters deal with the earlier English mine safety legislation and developments in Pennsylvania prior to 1869. The balance of the volume falls into two larger chronological sections tracing legislative developments from 1869 to 1885, and from 1885-1915, respectively. In each of these sections the anthracite and bituminous industries are separately considered.

Despite the fact that it does not carry the story of the development of Pennsylvania law beyond 1915, the book offers a unique contribution to the history of labor legislation in this country. The author declares in his Preface that "no similar study has been published in the intervening years." Indeed it also illuminates a dark corner of our economic history in general. Professor Farnam wrote twenty-five years ago: "Pennsylvania leads all of the other states of the union in the production of coal, and was the pioneer state in legislating for the safety of mines. The genesis of mining legislation in Pennsylvania is, therefore, the genesis of mining legislation in the United States, and it is well that considerable attention is given to the question of origins in the study." William Graham Sumner, another great figure at Yale contemporary with Professor Farnam, was of the opinion that the beginnings of the social processes were often those of most significance. Mr. Trachtenberg has traced to its wellsprings a wealth of source material and has dipped therein deeply and discriminatingly.

While in some parts highly technical in character, the book will be of interest to lay readers as well as to specialists. The author comes up with one nugget after another for those who have a bent toward the historical in social and labor relations. In addition to the consideration of legislation of a protective and preventive character relating to the physical hazards of the industry—such as that relating to inspection, timbering, ventilation, mine openings, etc.—the author tells of the struggles of the miners for regular cash payments, against the truck payment of wages, and the company store. The child labor issue, the hours problem, the concern of the miners for the care and relief of the injured, and the earlier legislation upon these matters are discussed. The legislative history of correct compensation for the amounts actually mined and saleable is presented. These and other issues the author has traced through the annals of the anthracite and bituminous industry, of the Pennsylvania legislature, of the courts of the state, and of labor organizations.

Certain things stand out: in particular, the origins of the labor supply by which the earlier Welsh and English miners were familiar with the legislative approach of England to the safety problem; the seasonal movements

between the branches of the industry which carried over the experience in legislation from the anthracite fields to the bituminous fields; how the demand for legislation was tied up with the development of labor organization in the coal fields. Again, the reader cannot but be struck, as was Professor Farnam many years ago, by the correlation between the impact of catastrophe and the consequent demand for protective legislation, when he remarked, "It seems as if legislation for safety almost always required as a condition of its enactment the sacrifice of human lives in some great disaster." The Avondale and the Mammoth tragedies loom up as landmarks in the author's treatment.

The action of the courts on the constitutionality of the safety laws in general and upon particular applications, as well as the struggle in the legislature and the courts for enforcible and constitutional legislation consistent with the then prevailing doctrine of freedom of contract, will arouse in the mind of the student of labor legislation many a reminiscent train of thought. Finally, the mine inspector, his numbers, his duties, the mode of his selection, and above all how he became an active source of suggestion and a personal force for improved legislation and improved practices becomes an important figure in the author's text.

The aggregate picture which Mr. Trachtenberg sketches of the conflict of economic, social, and political forces which played their part in the origins of mining labor legislation in Pennsylvania is highly illuminating.

HERBERT MAYNARD DIAMOND

Lehigh University

The Labor Relations Act in the Courts. By HERBERT O. EBY. (New York: Harper, 1943. Pp. xvii, 250. $3.50.)

Since the time that the National Labor Relations act was held constitutional by the Supreme Court, in 1937, there have been scores of cases in that court and hundreds in the Federal Circuit Courts dealing with issues arising in the interpretation of that act. This voluminous material is here summarized and prepared in extremely appealing and usable form. Cutting through the thick foliage of the forest which the mass of the original decisions represents, the author (formerly an attorney with the National Labor Relations Board), has selected the significant ruling from each decision, and added appropriate headings, footnotes, references and other suggestions. Thus he has made a complicated and time-consuming subject easy to grasp.

The sequence of material is in accordance with the 14 chapters of the law, and each begins with background material and the relevant sections of the act. The typography and format of the book are so excellent as almost to compel reader-interest.

Thus the labors of the author have produced a volume of inestimable value to anyone who needs quick guidance to what is legal under this epoch-making extension of federal power represented by the act. The business executive would do very well to have it on his desk in order that he may know better his rights and obligations; the lawyer will most certainly want it; the labor union official will unquestionably profit by it; and the student of labor relations will be

among those grateful for having his path cleared to the interpretations of the act.

HERMAN FELDMAN

The Amos Tuck School of Business Administration, Dartmouth College

Social Insurance; Relief; Pensions; Public Welfare

Report on Social Security for Canada. Prepared by LEONARD C. MARSH for the Advisory Committee on Reconstruction. [Sess. 1943, House of Commons Special Committee on Social Security.] (Ottawa: Cloutier. 1943. Pp. 145. 50c.)

This is the Canadian counterpart of the Beveridge and the National Resources Planning Board reports on social security. Like so many things Canadian, it is something of a cross between the British and the American versions, with some native ingredients added. But in general it is more like the Beveridge report than that of N.R.P.B., since it plunges promptly into proposals for post-war policy, without providing a lengthy analysis of the background of the problem. As in the case of the British report, it is essentially the work of one man, Dr. Leonard C. Marsh, who had been Director of Social Research at McGill University for some ten years before he became Research Advisor to the Dominion Advisory Committee on Reconstruction after the outbreak of the war in Europe. The fact that Dr. Marsh had been a student of Sir William Beveridge before coming to Canada will suggest further the importance of the English influence upon his work.

Politically the Marsh report is evidently a concession by the Canadian government to the prevailing demands for some action on social security and a flier to sound out public opinion. Canada has been slow to adopt advanced measures of social security and during the first stages of post-war planning practically no attention was paid to the subject. But in December of last year the Beveridge report aroused tremendous enthusiasm throughout Canada, social security became politically important overnight, and Dr. Marsh was hastily commissioned to outline a plan for Canada. That he succeeded, with the help of few consultants, in turning out a substantial and creditable memorandum in the space of about six weeks (as compared with more than two years for the Beveridge report and some three years for the N.R.P.B. report) speaks highly for his ability and energy. With the Marsh plan released for public consideration, the government is now proceeding, through parliamentary committees, to hold public hearings on social security, and out of this procedure it is to be expected that some decisions on policy will emerge before long and that legislative action will follow.

The report is a good deal less specific in its proposals than that of Sir William Beveridge, but somewhat more definite at many points than the N.R.P.B. report. Dr. Marsh says in his Preface that it is designed to set out "the prin-

ciples . . . of a comprehensive social security system . . . suited to Canadian conditions." Beginning in the first part with a sketch of social insecurity in Canada and the requirements for a national minimum standard of living, he develops progressively a set of general proposals for post-war policy, with a good many alternative suggestions regarding details.

The main proposals (or preferences, for many points are advanced very tentatively) may be outlined under six headings which follow, the last five representing the social security program proper.

1. *A National Employment Program.* This is needed as the "first positive measure in providing social security . . . in the widest sense we must have a policy for economic security as well as for welfare security, which is what 'social security' usually implies." Immediately following the war a federally sponsored program of public works and other public investment projects at the rate of a billion dollars a year may be necessary to hold up employment.

2. *Supplementary Occupational and Training Schemes.* These would be needed for semi-employable persons and others not provided with work at standard wages under the national employment program or not cared for adequately or appropriately by unemployment insurance benefits. Employment on the work projects would be an alternative to unemployment assistance for certain workers and this part of the work scheme would be closely related, administratively and otherwise, to unemployment assistance, which would be operated by the Dominion Government through the national employment offices. However, proposals on the administration of the work projects are not very clear, and it is suggested that there may be Dominion, provincial, and local collaboration in their operation. Vocational training and guidance training facilities would be provided largely by the provincial and local authorities, with Dominion support and direction.

3. *Social Insurance.* In the narrow sense of cash benefit schemes of income maintenance, social insurance measures are proposed to meet the major risks to the incomes of the gainfully occupied. The first group of insurance schemes, covering wage-earners only, would provide cash benefits in respect of unemployment, sickness, maternity, and industrial disability or death. This group, to protect against "employment risks," might be financed by employers' contributions, would offer benefits graduated in accordance with wages as at present under the Dominion unemployment insurance scheme, and would be operated by the Dominion—except for workmen's compensation, which would continue to be provincially administered. A second group of schemes, to cover all gainfully occupied persons, would provide flat rate benefits in respect of old age retirement, permanent disability, survivors of insured persons, and funerals. These plans, to be operated by the Dominion Government, would be financed by joint contributions from insured persons and the government. Insurance benefits would be designed to meet the needs only of single persons or of man and wife, child dependents being cared for through a separate system of children's allowances.

4. *Medical Care.* A comprehensive system of public medical care for the whole population is proposed, to be financed by contributions from the gain-

fully employed and from the Dominion and provincial governments. Administration would be (probably) in the hands of the provincial authorities, and would be closely related to the existing public health services.

5. *Children's Allowances*. These, according to Dr. Marsh, represent the "key to consistency" in a social security system. It is proposed that they should be payable to all families with children, whether the breadwinners are earning or not, at flat rates varying with the ages of the children. The Dominion would operate this scheme and would meet the costs entirely from tax funds.

6. *Public Assistance*. A nationally operated and financed scheme of unemployment assistance is proposed, offering maintenance grants on a means test basis for persons who have exhausted their unemployment insurance benefit rights and for other employable persons. The existing Dominion-provincial system of noncontributory old age pensions should be liberalized and continued, to supplement the old age insurance system; and for similar reasons the provincial mothers' allowances system would have to be continued, on a modified basis, providing grants for mothers but not for children, until the progressive development of survivors' insurance would make it unnecessary.

No close attempt is made to estimate the costs of this large program. The proposals are not definite enough to permit detailed calculations. But it is suggested that the social security program, apart from the national employment measures, may require expenditures amounting to about one billion dollars a year, or 12½ per cent of national income, with about half of this amount to be met by the Dominion Government from tax funds.

There are some distinctive and very interesting ideas in the report, new to social security practice and thinking in North America. The inclusion of the proposal for children's allowances is even more revolutionary than it was in Sir William Beveridge's report, for virtually no study has been given to the subject on this continent and it is totally new to the general public. The report breaks boldly and refreshingly away from the traditional three-way pattern of social insurance contributions and brings out new approaches to the contributions problem.

In the case of the medical care scheme it is proposed that there should be a "degressive" system of contributions by insured persons—$26 per year (or some such flat amount representing average costs of service per consumer unit of single person or family) but not more than 3 per cent of earnings, with the deficits in respect of certain persons being made up by employers or by the Dominion and provincial governments.

There is a somewhat similar attempt to steer a middle course between the flat rate and graduated approaches to benefits, with flat rates being proposed for the "universal" (long-term) risks and rates varied in accordance with normal earnings for the "employment" (short-term) risks. Substantial arguments, including simplicity of administration, are used in support of this differentiation of benefit policy as between the two kinds of risks. There is a very good discussion of the problem of old age insurance replacing old age assistance and of alternative devices to operate during the transitional period.

As might be expected in a hastily prepared report covering so much territory,

there are various omissions and loose ends. The problem of integrating the proposed new federal services with the existing system of provincial and local welfare services is left for later consideration in another report that is projected. It is unfortunate that this phase of the total problem has not received more attention in the report. For every realist (certainly including the author of the report) knows that a full-fledged national system of social security in Canada is impossible without drastic revisions in Dominion-provincial relations.

At various points Dr. Marsh suggests that his proposals call for Dominion-provincial collaboration in administration or finance, but since he does not suggest any formula upon the basis of which this collaboration may be obtained, an absolutely crucial element in a total plan is lacking. In particular, there is no mention of how the provinces are to raise the funds for their contributions to the medical care program, a point on which there is almost certain to be political as well as financial difficulty.

The proposal for a national system of unemployment assistance is, in the writer's opinion, very much to be questioned. At least the case for it can only be made properly if its relationship to and its effect upon the provincial and local public assistance services are taken into account, and this has not been done. The problem of administrative machinery, including the difficult question of integration of the social security services at the Dominion level, receives but little attention.

But it would be asking too much for all major questions to be dealt with effectively in so hurried a report. Unfinished though the job is, it sets forth in bold outline a comprehensive social security program for Canada that is a good starting point for public discussion and it brings out important alternative approaches that call for careful study and consideration. It is sufficiently different from the plans now current in the United States to be stimulating and suggestive to students of social security in this country and to represent an important contribution to the literature of the subject on this continent.

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The Kentucky Poor Law, 1792-1936. By EMIL MCKEE SUNLEY. (Chicago: Univ. of Chicago Press. 1942. Pp. lx, 160. $1.50.)

The Kentucky Poor Law was made the subject of special study because its enforcement and administration furnish significant information and throw light on the slowness of improvement in the social services. The state adopted the county unit of administration, though on several occasions the state made direct attempts to relieve cases of poverty. Two stages in the history of the poor law are studied, the first closing in 1852 and the second lasting until 1936. In the first period poorhouses were authorized, cash allowances were occasionally made, and the legislature intervened directly in giving relief. Several significant developments occurred after 1852, among them being the adoption of family responsibilty for indigents and the beginning of categorical assistance programs.

The chapter on Poorhouse Care reveals a sordid story that might be related for other states as well. After 144 years no substantial progress has been made in handling the problem. A law dealing with illegitimacy was passed in 1795. Single women, except slaves, might take legal steps to establish the paternity of their children. Paternal support was authorized by the courts, but the amount was pitifully small, ranging from $20 to $50 per year. The law was frequently amended and in later years the inheritance rights of illegitimate children were extended. The original vagrancy law was crude and its administration fantastic. In the early days vagrants were often sold to the highest bidder, but the prevailing method of treatment was court trial and jail sentence. In 1912 a new law empowered the state Pension Board to grant pensions to certain needy Confederate soldiers or their widows. Then came laws for the benefit of the blind, the aged, and dependent widows. The limitations imposed by the laws and the unwillingness of the counties to utilize this new legislation left the majority of individuals falling into these classifications uncared for. The study reveals an amazing failure on the part of a great state to bring its laws and its social service practices into harmony with the standards of the enlightened social work of today. Nevertheless, in some respects the state has made significant progress.

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Consumption; Income Distribution; Coöperation

Economic Theory of Coöperation. By IVAN V. EMELIANOFF. (Washington: [Author.] 1942. Pp. ix, 269.)

During the six years of the existence of the Coöperative Project of the U. S. Bureau of Labor Statistics, its research staff surveyed approximately 30,000 books, reports, pamphlets, and magazine articles published in fourteen languages, dealing with the coöperative movement. To a non-professional student of coöperatives, this figure may be amazing. However, what was amazing to me in directing the Project's research was the extremely small percentage of publications of a really scholarly nature, devoid of promotional aspects and emotional reflections, and divorced from those features which unfortunately too often characterize amateurish attempts to analyze current socio-economic problems. In this country, where the rapidly expanding coöperative movement has been attracting ever-growing attention on the part of the public in general, the above shortcomings of domestic literature on coöperation are especially evident and regrettable. Works which submit the coöperative movement as a whole to objective and comprehensive analyses are not frequent; and coöperatives do not as yet enjoy that degree of attention in academic circles which they certainly deserve. Judged from this point of view, the *Economic Theory of Coöperation* is a rare book because of its scholarly nature, unusual because of the author's approach to the subject, and challenging because of his conclusions.

One of the main problems in any coöperative theory is to answer the question as to what a coöperative is, since the interpretation of all socio-economic implications of coöperation depends greatly upon one's understanding of "genuine coöperative." Dr. Ivan V. Emelianoff, a prominent author of many books on coöperation in Russian, sets out to seek the answer in the field of "economic morphology," since only analysis of the economic structure of the coöperative organization may reveal the true economic conception of the coöperative. Accepting this as a starting point, he directs his analysis toward the examination of a "coöperative economic type around which all the actually existing varieties of coöperative associations are centered."

The foundation on which the whole structure of Dr. Emelianoff's theory is erected is a concept of the "enterprise." Using works of Herbert J. Davenport (*Economics of Enterprise*), Gustav Schmoller (*Grundriss der allgemeinen Volkswirtschaftslehre*), and R. Liefman (*Die Unternehmungsformen*), the author defines enterprise as an "acquisitive economic unit within the competitive exchange economic system." The "economic unit" in turn is defined as "an economic body admittedly complete and sufficiently integrated for individual existence and independent (in conditions of exchange economy-interdependent) economic functioning." Within the existing exchange system such an "economic unit" in its acquisitive aspect represents an enterprise, while in the spending or wealth-using aspect, it represents a "household." The conception of "economic unit" is of extreme importance for analyzing the coöperative, since the "economic unit" is actually a common denominator for all existing forms of economic organizations, while the science of economics approached from this angle becomes "a science of enterprises and households." "Profit" is the only possible form of income in both available forms of enterprise: individual or collective. From this standpoint, coöperatives are not enterprises, since (1) the non-stock, non-profit coöperatives as well as associations with capital stock (but with no dividends payable on stocks) are deprived of the fundamental test of enterprise (income) and are, therefore, not acquisitive economic units; (2) coöperatives of the Rochdale type are only "covered by the legal robes of a stock company," which do not correspond to the economic nature of coöperative associations. Their "surpluses," distributed among the stockholders, are in no sense a real "entrepreneurial income of the association," since they are limited, stipulated and accrued in the association exclusively from the patronage of its own members.

Not being an enterprise, the coöperative is a "derived economic formation." It is not a "union of persons" but a "representative body," where each member is a delegate and a spokesman for his economic unit. It is a kind of antithesis of enterprise.

There are three principal channels of economic integration, proceeds the author, through an expansion of existing economic units, through their fusion, and through coördination of their activities. The outcome of the latter process is an "aggregate" of coördinated economic bodies. All the functions of such an aggregate are ultimately the functions of the "aggregated units," and not of the "aggregate" itself. Coöperative organizations are "aggregates of economic units."

Because of the generally accepted although erroneous assumption that a coöperative organization is an enterprise, most of the external structural characteristics of coöperative associations are "misapprehended and misrepresented" in coöperative literature. Thus, "the coöperative principle of services at cost is nothing other than the manifestation of their aggregate structure: as long as the coöperative remains a non-acquisitive aggregate of enterprises or households it cannot act otherwise." Capital stock of the coöperative (share capital) is not an entrepreneurial capital, but an advance by the members.

As to patronage refunds, the author maintains that the "reverential approach" of most coöperative writers to the Rochdale Principle of distribution of surpluses in proportion to patronage has created only an unsolvable economic enigma of coöperative "profits" which are distributed in coöperatives on a presumably more just basis than in capitalistic enterprises. As long as the coöperative is not treated as an "enterprise," coöperative patronage refunds cannot be interpreted as "profits," "income," or "savings." They are simply a "final stage of reckoning between the collective establishment of the aggregate and its members on their transactions through coöperative association," unhallowed by any piety of Rochdale "Principles."

The "religiously obeyed" principle of equal votes is also not a test of genuine coöperatives. "Despite deeply rooted prejudices to the contrary," equal and unequal voting powers are inherent in coöperative associations, are compatible with their nature and consistent with their structure. "Limitations as to the maximum votes allowable to the individual members reflect only the need to check an excessive heterogeneity among the participants," since socio-economic homogeneity is one of the most important prerequisites of success in the coöperative field, and an overwhelming majority of existing coöperatives are organizations with distinctly homogeneous membership. "Coöperators vote equally because they are for all practical purposes, economically equal, and not because they strive for economic equality." Equal voting, being equal in practice, remains proportional in principle, and this "most sacred" Rochdale Principle is simply a "deceiving feature in the structure of coöperative associations."

According to *Economic Theory of Coöperation,* the Rochdale Principles as a whole are "corollaries of an aggregate structure of coöperative associations," an interpretation which the author admits is "heretical from the point of view of traditional coöperation."

The term "pseudo-coöperative" is rejected by the author: "as the specific term of the traditional philosophy of coöperation" it "should be abandoned, since it has not real and defensible economic meaning."

As to the productive coöperative association, after an analysis of its economic nature, the author comes to the conclusion that it is "a lifeless theoretical scheme without any chance of realization in a surveyable future," while from the morphological point of view it is "a distorted conception of enterprises organized into incredible aggregates." Equipped with the weapon of the above outlined conclusions, the author in the last chapters of his book attacks "fallacious sociological postulates of the traditional interpretations of the

coöperative problem"; submits to critical analysis the origin of the orthodox doctrine of coöperation and "the glory of the Rochdale store," which, according to him, cannot claim any priority in the development of this economic form (aggregate economic units); discards "time-honored" beliefs that coöperatives reject the profit motive in their work, or have "a soul which is hostile to the capitalistic system"; refuses to understand why or how "coöperative laundries or coöperative bacon factories can lead this world to its moral regeneration"; and finally denies that any appraisals of coöperation are generally possible; "being economic nonentities themselves, the coöperatives only reflect the character and aspirations of their membership."

One can take issue with Dr. Emelianoff on many points. First of all, from a methodological point of view a plan to erect a framework for any theory on a foundation of concepts which are uncertain and, admittedly, "nearly unused in economic literature" always has been a rather hazardous if not *a priori* a hopeless undertaking. Definitions of the concepts of "enterprise" (left undefined by Herbert J. Davenport in his *Economics of Enterprise*), "economic unit," "household," "economic aggregate," etc., more than once required that the author use concepts which in turn had to be first defined. The author's dialectical skill in this regard is outstanding and his logic is unshakable. And yet, the reader may find it difficult to understand the author at times when the latter substitutes, probably unconsciously, German and Russian meanings of some of the morphological concepts for their English equivalents.

A similar "socio-philological" mistake takes place in the author's approach to the Rochdale Principles of coöperation. They are attacked because "they prescribe the economic behaviour of coöperators rather than explain anything." The author forgets, however, that although colloquially the word "principle" is used rather loosely, the concept of the term "principle," being by its definition a fundamental truth from which others are derived, always implies an element of prescription rather than an element of explanation. It is an original faculty; a belief which can be accepted or rejected; an assumption which may prove to be workable or not. Hence, Rochdale Principles are nothing else than moral opinions and formulas expressing a belief in the desirability of the equality of people and mutuality; and the ethical necessity to make human beings (and not capital) the masters of economic life.

The ethical Rochdale Principles may have socio-economic implications. They cannot have, however, any "economic meaning" in that sense of the word in which it is used by the author. His failure to see this cardinal peculiarity of the Rochdale Principles leads him toward an analysis of an actually non-existing conflict between the economic theory of coöperation and the "traditional" approach toward coöperatives. Having brilliantly solved the task of isolating the economic aspect of coöperatives for the purpose of economic analysis, the author forgot that such coöperatives, separated from social relations, are only an economic abstraction having no autonomous existence in real economic life. There cannot be, therefore, any conflict between an interpretation of coöperatives as "aggregates of economic units" and "socio-therapeutic" coöperatives designated by "apostles of coöperation"

to coördinate, integrate, and reconcile business and social relations. However, as the method of approach and terminology used by the author require such elaborate analysis, many readers will miss this point, and, having finished the study of the book, will come to the conclusion that Dr. Emelianoff's coöperatives are simply an antithesis of the genuine coöperative.

Such a conclusion would be rather unfortunate, since the contribution made by Dr. Emelianoff toward interpreting the coöperative organization hardly can be overestimated. Most writers on coöperation fail to find a method of bringing to a common denominator the great variety of existing coöperatives, especially consumer coöperatives and agricultural market and purchasing associations. Dr. Emelianoff solves this "unsolvable" task. A single thread running through all coöperative organizations begins to be discernible in the process of reading the *Economic Theory of Coöperation* and turns out to be the very backbone of the body of coöperation. The author's survey of existing interpretations of coöperation, including classical works of Professors Ch. Valenti and M. Mariani (in Italian), F. Oppenheimer, H. Fuchs, F. Staudinger (in German), and M. Tugan-Baranovsky (in Russian), most of which are not yet translated into English and not known to coöperators in this country, makes the book an exceptionally valuable source for study of the coöperative theory. The method used to analyze twenty-three typical definitions of the coöperative and of its "essentials" is more than illuminating. If not judged exclusively in the light of the author's final conclusions, the book as a whole is most thought-provoking, unique, and deserving of a prominent place in its field.

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Income Size Distributions in the United States: Part I. By the Conference on Research in Income and Wealth. Stud. in income and wealth, vol. V. (New York: Nat. Bur. Econ. Research. 1943. Pp. xxvi, 131. $1.00.)

This book presents a compact summary of the most important recent studies containing primary data on income size distribution in the United States, together with recommendations for the coördination of future studies. It is based primarily on a series of detailed reports on the individual studies written by persons intimately connected with each study and issued as Part II of the volume.

An introductory first chapter outlines the different purposes for which data on income size distribution are collected, and discusses the resulting differences in definition of income, income receiving unit, and income period which are properly to be expected. In chapters 2 and 3, the individual studies are examined with respect to basic differences in source, coverage and definition, followed by a discussion of the lack of comparability and the deficiencies of the various series. These chapters provide an extremely useful guide to the material in the field. Particularly handy for students are the compact summary tables which outline the coverage of the various studies, the items of income included in each, and the definition of the economic unit used in the

various field surveys. No attempt is made to summarize the statistics themselves since the heterogeneity of the data is such that comparisons of the income series from different studies cannot be made without fairly arbitrary adjustments to allow for differences in definition and coverage.

The following studies are included in the survey: Study of Consumer Purchases, National Health Survey, Michigan Census of Population and Unemployment, Financial Survey of Urban Housing, Minnesota Income Study, 1940 Census of Population, Federal Income Tax Returns including the special studies made of the 1934 and 1936 returns, State Income Tax Returns including the special studies made of the Delaware, Wisconsin and Montana income tax returns, Old-Age and Survivors Insurance Records, and Unemployment Compensation Records. The volume was prepared before the completion of the most recent study containing data on income size distribution, *Survey of Family Spending and Saving in Wartime*, conducted by the Bureau of Labor Statistics and the Bureau of Home Economics.

Since the authors confined themselves to studies involving the collection of primary data, certain widely used series are excluded, such as the income distributions presented in the report of the National Resources Committee, *Consumer Incomes in the United States: Their Distribution in 1935-36*, which are based on income data from the Study of Consumer Purchases and from federal income tax returns, and the distributions prepared at the Social Security Board based on income data from the National Health Survey. (See issues of the Social Security *Bulletin* for 1939 and 1940.)

The recommendations outlined in Chapter 4 are designed to reduce the heterogeneity of data collected in future studies. It is not suggested, of course, that all studies adopt uniform concepts, but that wherever possible each study should include information which would make it possible to cross-classify the data by certain standard "comparison concepts" with respect to income, income receiving unit, income class intervals, and income period. In defining the "comparison concept" for income, the authors were guided not only by theoretical considerations but also by the difficulties and cost of including certain items of income, and by the desirability of approximating the definition used in federal income tax returns, which represent the best recurrent series of income data.

The recommended concept for income is the algebraic sum of the following items: money wages and salaries from nonrelief activity, earnings from relief employment, pensions arising from wage or salary contracts, income from independent business or profession, income from roomers and boarders, interest and dividends, rents and royalties, and income from fiduciaries and trusts. An equally specific comparison concept for the income receiving unit is not presented, and, since most field surveys are made in terms of family units, the problem of matching the results of such surveys with the recurrent data from federal income tax returns remains unsolved.

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Population; Migration; Vital Statistics

The Political Economy of Population. By Radhakamal Mukerjee. Lucknow Univ. stud. (New York: Longmans Green. Pp. xiv, 467. *7s. 6d.*)

Professor Mukerjee's book is remarkable in that it attempts to deal with the population problem from the point of view of so many important fields of knowledge. Starting with the concept of the optimum population, he analyzes the problem from the ecological, economic, sociological, and military aspects, and proceeds to lay down certain laws of population growth on these successive levels of analysis. Having derived these laws, the author develops what he calls a new idea of the "integral optimum of population" which is based upon a harmonious coördination of all of the optima which he has developed on these successive levels. Finally, since the population issue of one country has to be harmonized into a world population policy, he proposes a new "political economy of population" which he believes will promote peace and lessen some of the present causes of injustice and inequality among mankind.

The author first takes up the analysis on a bio-ecological basis. All living organisms in a region are bound together in a vast, intricate, and interdependent "web of life." He is convinced that the ecology of man closely resembles that of animals. The history of man in his migrations, whether due to climate, landscape, or disaster, has been one of constant adjustment to the delicate balance within a region and to an optimum population. From this extended discussion, he draws his ecological optimum. He says that the criteria of this optimum are the physiological vigor or the average longevity of the population, and the stability and balance of the region as the ecological base of community life. This stability requires what we would ordinarily term a careful "conservation of resources."

The author next proceeds to build his economic optimum. His critera on this level are the maximum per capita income, and the maximum employment of resources in men, materials, and capital. Overpopulation can be judged by the total returns per capita, and by an increase in employment at rates smaller than the increase in population.

Finally, the social or ethical optimum of population has for its tests the maximum leisure, freedom, and capacity for the pursuit of ultimate values, and the maximum social and political security. The social optimum is also one which safeguards a nation and at the same time does not foster a war or subordinate the standard of living or the personal freedom of the individual.

The author's "integral optimum" is an attempt to harmonize and coördinate these various optima. The ecological level may be considered basic, as no country can long misuse and exhaust its land and other resources. The social optimum in turn rests in a way on the economic optimum, as the pursuit of higher values depends mainly upon a satisfactory standard of living. It is possible, however, for this to be pushed too far so as to jeopardize health, personal values, and security. The social optimum would therefore adjust and correct

the economic optimum to attain the highest social values. To accomplish this the effects of urbanization, the machine system, congestion, and many other factors affecting the modern family will have to be changed. Crowded nations must restrict their population growth and other nations must share resources with them before any world optimum of population can be attained. The highest and all-inclusive optimum is one consistent with the dignity and freedom of the individual. Out of all this, there would arise a basis for both positive and negative eugenics.

This integral optimum, the author thinks—although he admits that it cannot be measured on any quantitative basis—should be the basis of a planned population policy. This approach marks a definite advance in population theory and a guide to a rational population policy. All countries must then unite in a world population policy. Among the proposals put forth by him are the following: A more equitable distribution of the natural resources of the world with a mandate system for all colonial territory; equalization of economic opportunities with reference to raw materials and markets with simultaneous programs of public works; international coöperation on exchange rates and the distribution of gold; a world plan for the distribution of population without discrimination as to country or race, to give relief to the overcrowded nations; and the establishment of a universal minimum standard of living binding on all nations. In order to accomplish this, it would be necessary to encourage migration from countries suffering from overpopulation and at the same time secure a reduction of the birth rate by a program of birth control. The author then proceeds to work out a survey and plan for the peopling of the empty lands of the world.

The reader finishes this long treatise with a shortness of breath, for such an array of knowledge covering everything from animal and plant ecology to plans for world peace is rare. Perhaps the author has attempted too much. His use of optima for population tests instead of any single optimum—for example, an economic basis—is not new. Such writers as W. S. Thompson have criticized the whole idea of attempting to define an optimum population purely on economic grounds. The author is undoubtedly aware of the criticisms of the economic optimum as revealed by the controversies carried on in this country and in England; yet he makes little or no defense of his basis of income per capita in the light of those controversies.

Income per capita is due not only to land and natural resources, but also to the state of the arts, capital, tools and machines, diet and standards of consumption, social organization, and perhaps many other factors. The trouble with such a basis as income per capita or productivity per head is that nothing is really proved by a comparison of these data in two periods of time. A country might have a higher income in 1940 than in 1900 and still be overpopulated. Income is relevant to capital and technical knowledge. Unemployment is not a conclusive test of overpopulation. This factor is so dependent upon the industrial situation that there could be a high degree of unemployment and yet underpopulation. This was brought out in the controversy which took place some years ago between Keynes and Beveridge as to whether or not unemploy-

ment showed that England was overpopulated. How then can we know whether or not a country is overpopulated by economic tests? The truth of the matter is that we cannot. About all we can say is that a country is not as well off as it would be if it had fewer people. Just when a country reaches this particular point of the optimum, we cannot say.

Whatever may be said in regard to the economic optimum as a basis for population planning, the author's general welfare concept of the social and ethical optimum is still vague and uncertain. The meaning of such expressions as "ultimate values," "welfare," or even the ordinary word "poverty" is not easy to explain. Furthermore, it is not at all certain that such values are the same for all peoples throughout the world. Population attitudes may rest on superstition, family ideals, or religious beliefs. Might someone not say that there should also be a "religious optimum"? Certainly nations would differ as to these values, and then would all fight for the right to define them. Would Japan or Italy, for example, be willing to accept standards of world values and limit their present growth? There is also the assumption that a program of birth control can be made effective among people with an extremely low standard of living. On the contrary, it has often been found that a higher standard of living and birth limitation go hand in hand; where it is difficult to improve the standard of living on account of large numbers, any program of birth control is ineffective because of the very low standards of living.

Many statements in this book seem either false or exaggerated. For example, on page 336 with reference to Latin America, the author states: "The Latin-American countries containing mixed populations and vast unsettled areas are relatively free from race and colour prejudice, but the will of the U. S. A. is their law." Certainly the United States does not make the immigration laws for Argentina. The truth is that both the United States and the Latin-American countries prefer European over Asiatic immigration. On the same page he says: "Prior to the last great war there were evident in the U. S. A. the same self-admiration of the whites and the glorification of the Nordic as the Great Race which have been discernible in Germany during recent years." Does he mean that this was the entire basis of our quota laws? On page 220 he states: "The Negro problem in the rural South of the United States is fast becoming nation-wide due to the Negro birth rate being higher than that of the whites." The life expectancy of the Negro is much less than that of the whites. Finally, on page 429, he blames the unequal distribution of world population and resources, the exclusive tariff and immigration policy followed by the United States and the British Dominions, and exploitation in the old colonies of the British Empire as being the "major factors which have contributed to sow the seeds of the Second World War." Does he intend to justify war and the expansion policies of the Axis powers?

It seems that there is one important and significant contribution made by this book, and this is the approach to a social problem made on different levels of analysis and in different fields of knowledge. Economists who look upon economics as an attempt to understand human behavior will welcome it as a

contribution bringing out the interrelations between the sciences. Books of this character by one author are rare. To doubt that human wisdom is capable at the present time of taking the frail reeds of the social sciences and attaining the goals set forth by the author is not to detract from the idealism and world-outlook of his work. Both are sorely needed. American readers will agree with much of what is said about the need for a better distribution of resources, international coöperation, and the necessity for some sort of international order.

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NOTES

PRELIMINARY PROGRAM OF THE 56th ANNUAL MEETING OF THE AMERICAN ECONOMIC ASSOCIATION

On authorization of the Executive Committee of the Association, the Program Committee has arranged a joint meeting with the American Political Science Association, to be held in Washington, D.C., January 20-23, 1944. This meeting is planned as one of a number of local meetings to be held in metropolitan or university centers wherever such meetings may receive local encouragement. The local meetings will, it is hoped, be coördinated with the central local meeting in Washington. The Committee is negotiating with the broadcasting companies to have several of the main papers broadcast on national hookups, and it may be possible to tie in certain localities with telephonic loudspeaker hookups; for instance, Boston, New York, Cleveland, Chicago, St. Louis, New Orleans, San Francisco, and Los Angeles. If such arrangements can be made, the planning of meetings, with or without local papers and discussions, should appeal strongly to a number of centers. The Secretary of the Association will be glad to coöperate if members will communicate with him their desire to hold a local or regional meeting.

The time of the meetings—January 20-23—was chosen in order to avoid conflicts with Congressional events and congestion of travel and hotel accommodations in Washington. There may be reasons for choosing other dates for local meetings. We foresee no difficulties with the Office of Defense Transportation in inviting a few outside members to participate.

Meetings will be held in the Department of Commerce Building and the headquarters of the two associations will be at Hotel Statler. Mr. Marshall Dimock is in charge of local arrangements and A. E. Taylor will serve as our representative on the committee.

Our members will appreciate that this is a preliminary draft and, so far as the Political Science Association part is concerned, a very skeleton outline, since only the main sections of their program have been determined and no individual speakers and papers have been indicated. The time schedule of the various sessions and the grouping of specific papers are at present entirely provisional.

President A. B. Wolfe is responsible for the economics part of the program and urges members to offer criticisms and suggestions. It is hoped that a more complete and perhaps final program will be published in the December number of the *Review*.

Thursday, January 20

8:00 P.M. Joint public meeting: United States Leadership in the Post-War World
Jacob Viner, Yale University, "Economic Relations between Divergent Systems"
Clyde Eagleton, New York University.

Friday, January 21

10:00 P.M. 1. Political Science roundtable: The Political Implications of Democracy

2. Joint meeting: The Implemental Aspects of Public Finance

Roy Blough, Treasury Department, "Public Finance, Economics, Politics, and Administration"

William Anderson

3. Joint meeting: Political Economy, Political Science, and Values

Arthur Salz, Ohio State University, "Economists Then and Now"

Herbert von Beckerath, Duke University, "Interrelations between Moral and Economic Factors in the Post-War World"

12:30 P.M. Joint luncheon meeting: Democracy and Values in a Free Society

2:30 P.M. 1. Political Science roundtables: (a) Pressure Groups and Public Interest; (b) Congress vs. Administration in Planning and Control

2. Joint roundtable: The Educational Functions of Economists and Political Scientists in a Democratic Society

Frank H. Knight, University of Chicago

J. M. Clark, Columbia University

3. Economics meeting: Social Security

Eveline M. Burns, "American Plans for Social Security"

Edwin E. Witte, University of Wisconsin, "What Should We Expect from Social Security?"

6:30 P.M. Joint dinner meeting

8:00 P.M. Presidential address: A. B. Wolfe

Saturday, January 22

10:00 A.M. 1. Economics meeting: The Structure of Post-War American Business

Theodore N. Beckman, Ohio State University, "Small Business in the American Economy"

Speakers to be announced, "Under What Conditions Can Private Enterprise Maintain Full Employment and Production?"

2. Political Science roundtables: (a) Legislative Control; (b) Bureaucracy: Administrative Structure; (c) Bureaucracy: Personnel and Professionalization

2:30 P.M. 1. Political Science roundtables: (a) Judicial Control of Administration; (b) Constitutional Development in Time of War; (c) The Bill of Rights in Time of War

2. Economics meeting: Public Finance

Carl Shoup, Columbia University, "The Future Interest Burden in Relation to National Production and Taxable Capacity"

Simeon E. Leland, University of Chicago, "The Management of the Public Debt after the War"

Harold M. Groves, University of Wisconsin, "Needed Changes in the Post-War Federal Tax System"

3. Economics meeting: Labor Problems

George W. Taylor, University of Pennsylvania, "Wage Regulation in Post-War America"

Speaker to be announced, "Union Policies and Leaders in Post-War America"

Speaker to be announced, "Post-War Organization of Labor"

6:00 P.M. Dinner and annual meeting of the American Political Science Association

8:00 P.M. Presidential address: Robert E. Cushman, "Civil Liberty after the War"

Sunday, January 23

10:00 A.M. 1. Economics meeting: Monetary Problems

C. R. Whittlesey, University of Pennsylvania, "Problems of our Post-War Domestic Monetary and Banking System"

Speaker to be announced, "The Post-War Obligations of the United States as the Leading Creditor Nation"

2. Economics meeting: Dynamic Economic Theory in Relation to Post-War Problems

Z. C. Dickinson, University of Michigan, "The Problem of Incentive in a Regulated Capitalistic Economy"

Speaker to be announced, "The Theory of Economic Expansion"

Speaker to be announced, "Process Analysis in Relation to Policy Formation"

3. Economics meeting: International Trade

J. B. Condliffe, University of California, "Economic Power as an Instrument of National Policy"

Corwin Edwards, Department of Justice, "International Cartels as Obstacles to the Regulation of International Trade"

4. Political Science roundtables: (a) The Police Function in International Society; (b) Proposed Forms of International Federation

12:30 P.M. Joint luncheon meeting

2:30 P.M. 1. Joint meeting: Regional Problems

W. L. Holland, Institute of Pacific Relations, "The Political Economy of the Pacific"

Dana Munroe, Princeton University, "Our Post-War Economic Relations with Latin America"

2. Economics meeting: International Monetary Problems

Howard S. Ellis, University of California, "Can National and International Monetary Policies Be Reconciled?"

Speaker to be announced, "International Monetary Plans"

3. Joint meeting: The Post-War Economic and Legal Position of American Women

Speaker to be announced, "The Gainful Employment of Women after the War"

Speakers to be announced, "Legislative Protection vs. Constitutional Equality for Women"

8:00 P.M. Economics meeting: Symposium of Past Presidents

"Full Employment and Economic Stability Being Taken as Necessary Basic Conditions to National Prosperity, What Should Be the Relative Spheres of Government and of Private Enterprise in Our Post-War American Economy?"

The following names have recently been added to the membership of the AMERICAN ECONOMIC ASSOCIATION:

Baldwin, C. F., Jr., 3821 V St. S.E., Washington, D.C.
Beveridge, O. M., 172-35 Henley Rd., Jamaica, N.Y.
Bradford, E. S., 50 Argyle Ave., New Rochelle, N.Y.
Brand, M., 1144 13th St., Boulder, Colo.
Brown, E. H., 402 Harvard Hall, 1650 Harvard St., Washington, D.C.
Brownlee, R. H., c/o U. S. Embassy, Managua, Nicaragua.
Calhoun, C. E., University of Toledo, Toledo, Ohio.
Clark, C. M., University of Kentucky, Lexington, Ky.
Faber, F. L., 1228 Eye St. N.W., Washington, D.C.
Felsten, B. E., 311 Webster St. N.W., Washington 11, D.C
Flynn, O. R., Jr., Apt. 12-D, 405 E. 54th St., New York, N.Y.
France, R. W., Rollins College, Winter Park, Fla.
Giebink, G. G., Chamber of Commerce, Minneapolis, Minn.
Greene, L. S., Department of Political Science, University of Tennessee, Knoxville, Tenn.
Hardin, R. H., Berea College, Berea, Ky.
Harris, F., 4824 Alton Pl. N.W., Washington, D.C.
Hilgerdt, F., League of Nations, Princeton, N.J.
Katz, N., 1521 Rhode Island Ave. N.W., Washington, D.C.
Keatinge, R. H., 2137 Suitland Ter. S.E., Washington 20, D.C.
Lavalle, M. E. Q., Argentine Embassy, Washington, D.C.
Lurié, S., 390 Riverside Dr., New York, N.Y.
Magill, R., 15 Broad St., New York, N.Y.
Marcus, Lieut. (j.g.) E., U. S. Coast Guard Yard, Curtis Bay, Md.
Matthews, Lieut. (j.g.) C. A., U. S. S. *Tuscaloosa*, c/o Fleet Post Office, New York, N.Y.
Matthews, L. M., Ships Service Dept., Box 14, Naval Air Station, Jacksonville, Fla.

Miller, J. F., 3306 Circle Hill Rd., Alexandria, Va.
Neff, P., Department of Economics, University of New Mexico, Albuquerque, N.M.
Niebyl, K. H., Tulane University, New Orleans, La.
Nussbaum, F. L., University of Wyoming, Laramie, Wyo.
Pawley, F. R., 8509 Greenwood Ave., Takoma Park, Md.
Peterson, A. G., 4362 Hilldale Rd., San Diego, Calif.
Pospisil, H. B., 449 Conover Ter., Orange, N.J.
Ransmeier, J. S., 817 Fendall Ave., Charlottesville, Va.
Rich, L. H., 444 Madison Ave., New York, N.Y.
Rigrutsky, W., 6201 Bay Parkway, Brooklyn, N.Y.
Seibel, L. E., 1652 Argonne Pl. N.W., Washington, D.C.
Talbot, H., 1230 Hudson St., Denver 7, Colo.
Thorson, I. A., 724 S. Spring St., Los Angeles, Calif.
Timberg, S., 2519 39th St. N.W., Washington, D.C.
Weiner, M. L., 1120 Lajoie Ave., Outremont, P.Q., Canada.
Wellisz, L., 151 E. 67th St., New York, N.Y.
Wolfort, R. E., 125 Prospect Park W., Brooklyn, N.Y.

Frank D. Graham is the author of *Social Goals and Economic Institutions*, rather than Frank P. Graham, as stated on page 301 of the June number of the *Review*.

James R. Kelly died December 13, 1942.

Appointments and Resignations

Eugen Altschul is on leave from the University of Minnesota for the year 1943-44, serving as an economist with the United States Tariff Commission in Washington.

Thomas J. Anderson, Jr., associate professor of economics, School of Commerce, Accounts, and Finance, New York University, was associated during the second semester of 1942-43, with the National Industrial Conference Board as research consultant.

Jules Backman, instructor in economics at the School of Commerce, Accounts, and Finance of New York University, has been temporarily affiliated with the Brookings Institution to make studies of British and Canadian price control and rationing.

Wesley C. Balline of the University of Oregon taught courses in economics at the University of Washington during the summer session of 1943.

Eric Beecroft, who has been Chief of the Eastern Hemisphere Export Division of the Board of Economic Warfare, has gone to New Delhi to take charge of work on United States supply to India.

M. L. Black, Jr., associate professor of economics at Duke University, who has been on leave working with the Office of Price Administration in Washington, will resume his teaching duties in September, 1943.

Roy G. Blakey has been granted a leave of absence from the University of Minnesota to assist the Council of State Governments, which is coöperating with the Treasury Department and the Bureau of the Budget in an effort to coördinate federal and state taxes.

Francis M. Boddy of the University of Minnesota is on duty as a Lieutenant in the United States Naval Reserve.

Arthur M. Borak of the University of Minnesota is serving on the staff of the Office of Price Administration with offices in St. Paul.

Nathan Borofsky resigned his junior assistantship in the department of economics, School of Commerce, Accounts, and Finance, New York University, to enter the United States Army.

E. L. Bowers, chairman of the department of economics, Ohio State University, is serving part time as public member of the Regional War Labor Board.

Emily C. Brown, professor of economics at Vassar College, has been granted a second year's leave of absence to continue her work as research analyst for the National Labor Relations Board.

William Adams Brown, Jr., of the department of economics, Brown University, is on leave of absence to serve with the Division of Economic Studies of the Department of State.

Henry T. Buechel has resigned as lecturer in economics at the University of Washington to accept a position as Director of Disputes for the Twelfth Regional War Labor Board, Seattle.

Roy J. Bullock of Johns Hopkins University is now with the State Department as Research Director, United States Section, Anglo-American Caribbean Commission.

O. E. Burley, associate professor of marketing, Ohio State University, is returning to his teaching duties after having served for a year as price economist with the Office of Price Administration.

Albert Ben Carson, formerly instructor in business organization and management in the College of Business Administration of the University of Nebraska, has accepted a position as accountant with the Kaiser Shipbuilding Corporation, at Richmond, California.

Walter A. Chudson, formerly of the department of economics, Columbia University, resigned from the Board of Economic Warfare to accept a position as principal economist in the Office of Foreign Economic Coördination, Department of State.

A. Hamilton Chute of the University of Minnesota is a special consultant for the Food Distribution Administration in the Department of Agriculture, Washington.

Thomas C. Cochran, assistant professor of economic history, School of Commerce department of economics, has taken a leave of absence from New York University to accept a position with the National City Bank of New York.

E. O. Dille, professor of marketing at the University of Tennessee, is on leave of absence serving as principal economist with the Service Programs Division in the Office of Civilian Requirements, War Production Board, Washington.

Wilford J. Eiteman has resigned his position as price executive of Alaska, Office of Price Administration, and has resumed teaching at Duke University.

Russell A. Dixon, associate professor of economics at the University of Pittsburgh, was engaged during the summer of 1943 on a research project on land valuation and construction costs for the Pittsburgh Housing Authority.

Helen Dorsey has resigned as instructor of business administration at West Virginia University to accept a position with the statistical department of the E. I. duPont de Nemours Company at Wilmington, Delaware.

Earl S. Fullbrook, professor of marketing in the College of Business Administration of the University of Nebraska, has been granted leave of absence to accept a position as director of public relations and research with the Chamber of Commerce of Lincoln, Nebraska.

Harold M. Groves of the department of economics at the University of Wisconsin, has been granted leave of absence for the year 1943-44 to carry on a study of taxation and incentives under the auspices of the Committee for Economic Development.

E. J. Hamilton of Duke University gave a graduate seminar at Colegio de México in Mexico City and engaged in research in the Mexican archives during June and July.

Robert W. Harbeson of Rutgers University has been granted leave of absence to serve as principal transportation economist in charge of transportation conservation and priorities for the War Food Administration, Washington.

Rector R. Hardin has been appointed professor of economics and chairman of the department of economics and business of Berea College.

William M. Hench is on military leave from Temple University while serving as a Captain in the Army, stationed at Drew Field, Tampa.

Francis W. Hopkins has been promoted to the rank of professor in the department of economics and sociology at the New Jersey College for Women.

George R. Hawkes, assistant instructor in business organization and management in the College of Business Administration of the University of Nebraska, has been commissioned an Ensign in the Coast Guard, and is stationed at Seattle.

Finn B. Jensen, assistant professor of economics at the University of Kansas, has been granted a leave of absence to serve with the State Department.

E. A. J. Johnson, professor of economic history, School of Commerce and Graduate School of New York University, has taken a leave of absence, effective during the summer, to accept an appointment as Major in the Military Government Division of the United States Army.

Keith W. Johnson, formerly associate economist with the Materials Branch of the Statistics Division, War Production Board, is now an economist with the Combined Raw Materials Board, Washington.

Howard S. Kaltenborn, instructor in business organization and management in the College of Business Administration of the University of Nebraska, has been granted leave of absence to accept a position as economist with the National War Labor Board in Detroit.

George Kleiner, formerly instructor in economics in the College of Business Administration of the University of Nebraska, has accepted a position as research analyst with the Federal Reserve Bank of Richmond.

M. J. Jucius has been promoted to the rank of associate professor of business organization at the Ohio State University.

C. E. Landon, assistant professor of economics at Duke University, who has been on leave with the Board of Investigation and Research in Washington, has resumed his teaching duties.

Oscar F. Litterer, instructor in statistics and business research in the College of Business Administration of the University of Nebraska, has been granted leave of absence to accept a position as research statistician with the National Bureau of Economic Research in Madison, Wisconsin.

Kullervo Louhi, instructor of accounting at the University of Kansas, has entered the United States Army.

Myron H. Luke resigned as instructor in economics and marketing at the State Institute of Agriculture at Farmingdale, L.I., to accept a position as associate agricultural economist with the Food Distribution Administration in New York City.

Fritz Machlup, professor of economics at the University of Buffalo, was granted leave of absence to serve as consultant in the Office of Alien Property Custodian in Washington.

Arthur W. Marget of the University of Minnesota has been commissioned a Major in the United States Army as a specialist in the Division on Administration of Occupied Territories.

Susan S. McAllister has been appointed instructor in the department of economics and sociology, New Jersey College for Women.

Henry S. Miller, on leave from Queens College, is serving as chief of the Italian unit, Potential Division, Enemy Branch of the Office of Economic Warfare.

Hans P. Neisser has been appointed professor at the New School for Social Research and will resign as principal economist at the Office of Price Administration this fall. He also was visiting professor at George Washington University for the summer session of 1943.

H. C. Nolen, associate professor of marketing, Ohio State University, is now serving with the Allied Military Government of Occupied Territory as a Major, and took over responsibility for civilian requirements when Sicily was occupied.

Ruby Norris, assistant professor in the department of economics, Vassar College, has been granted a second year's leave of absence to continue her work with the Office of Price Administration in Honolulu.

W. V. Owen, professor of economics at Purdue University, has been serving as a public member of panels for the Regional War Labor Board.

Elinor Pancoast, professor of economics and chairman of the department of economics and sociology, Goucher College, is on leave of absence, serving as senior civilian mobilization adviser, Third Region, Office of Civilian Defense.

Dudley F. Pegrum has been promoted to the rank of professor of economics at the University of California, Los Angeles.

B. U. Ratchford, associate professor of economics at Duke University who has been on leave with the Office of Price Administration, has resumed his teaching duties with the Senior Fiscal Officers' School.

Elizabeth A. Redden, associate professor of sociology, Goucher College, is on leave of absence serving as analyst in the price division of the Maryland District Office of Price Administration.

J. Wilson Rogers, instructor of industrial management at the University of Kansas, has resigned to accept a position in the personnel department of the Transcontinental, Western Airlines in Kansas City, Missouri.

Raymond de Roover, formerly assistant professor of economics and business at Illinois College, has been appointed assistant professor of economics at Wells College.

James H. Rossell, instructor in accounting at the University of Pittsburgh, has received a commission as Ensign in the U. S. Naval Reserve and is now stationed at the Philadelphia Navy Yard.

Edward B. Schmidt, assistant professor of economics in the College of Business Administration of the University of Nebraska, has been commissioned a Lieutenant in the Army Air Corps and is stationed at San Antonio.

Emerson P. Schmidt of the University of Minnesota is serving as economist with the United States Chamber of Commerce in Washington.

J. J. Spengler, professor of economics at Duke University, who has been on leave serving with the Office of Price Administration, has resumed his teaching duties with the Senior Fiscal Officers' School.

George J. Stigler of the University of Minnesota is engaged on a research project with the National Bureau of Economic Research in New York City.

Paul Studenski, professor of economics, School of Commerce, Accounts, and Finance, New York University, has been appointed by Governor Thomas E. Dewey as a member of the State Taxation Committee and State Economy Commission. In addition, the Rockefeller Foundation has made a grant to New York University for the completion of his study on international comparisons of national income estimates.

J. Wilner Sundelson, on leave of absence from Rutgers University, has resigned as chief economist in the War Production Board and is now serving as head overseas missions officer for the Lend-Lease Administration.

Herbert A. Tonne of the department of economics, School of Commerce, Accounts, and Finance, New York University, has been granted a leave of absence to enter government service.

Philmore Tucker has been appointed a junior assistant in the department of economics, School of Commerce, Accounts, and Finance, New York University.

J. Brook Willis of the Columbia University School of Business is on leave of absence for the year 1943-44, serving in the armed forces.

Viola Wyckoff, formerly instructor in economics at Iowa State College, has been appointed assistant professor of economics at Vassar College.

Dale Yoder while on leave of absence from the University of Minnesota served as Chief of the Planning Division in the Bureau of Program Planning and Review in the War Manpower Commission in Washington.

Erich W. Zimmermann, Distinguished Professor of Resources, the University of Texas, has been appointed a part-time economic consultant at the Department of State, Washington.

FORTIETH LIST OF DOCTORAL DISSERTATIONS IN POLITICAL ECONOMY IN PROGRESS IN AMERICAN UNIVERSITIES AND COLLEGES

The first list of this kind was dated January 1, 1904, and was sent to all members, but not regularly bound in the publications. A notation as to the earlier lists, extending from 1905 to 1927, may be found in the *Review* for September, 1927, page 574. Annual lists thereafter are to be found in the September number of the *Review* for each year.

The present list specifies doctoral degrees conferred, doctoral dissertations completed and accepted by the various universities, and the theses still in preparation. The last date given is the probable date of completion. In cases where the publishers of completed dissertations were given, this information has been reported.

The list represents the status of the several theses on June 20, 1943, except for a few items later reported as completed or published.

Economic Theory; General Works

Degrees Conferred

Paris Lemar Brokaw, Ph. D., Wisconsin, 1942. The development of monopoly thought and an analysis of monopoly equilibrium theory.

Yale Brozen, Ph.D., Chicago, 1942. Some economic aspects of technological change.

Benjamin Caplan, Ph.D., Chicago, 1942. The Wicksellian School: a critical study of the development of Swedish monetary theory, 1898-1932.

William Diamond, Ph.D., Johns Hopkins, 1942. President Wilson's conceptions of American economy.

Gault Wellington Lynn, Ph.D., California, 1943. An analysis and critique of the monetary theories of John Maynard Keynes.

George Herbert Hildebrand, Jr., Ph.D., Cornell, 1942. The theory of markets and the problem of economic crises from Quesnay to Marx: a study in the history of economic thought.

Theses Completed and Accepted

Stephen Enke, A.B., Stanford, 1936; A.M., 1939; Certificate in Public Administration, Harvard, 1940; M.P.A., 1941. Monopolistic competition and the general welfare. *Harvard.*

Louis Schneider, M.A., Columbia, 1938. Freudism and Veblenism: a study in social theory. 1943. *Columbia.*

Theses in Preparation

Ivar Axelson, A.B., Yale, 1919; A.M., Oklahoma, 1928. Process of savings and investment. 1944. *Columbia.*

Amos Lamar Archibald, A.B., 1936. The Ricardian socialists: economic doctrines and programs of reform. 1944. *California.*

Robert Mitchell Biggs, A.B., Wayne, 1939; A.M., Michigan, 1940. The historical aspects of the development of the concept of capital. 1944. *Michigan.*

William Paul Brann, B.A., Arkansas State, 1938; M.A., Virginia, 1942. Pure and monopolistic competition in American agriculture. 1944. *Virginia.*

Avery B. Cohan, A.B., Cornell, 1934; A.M., Columbia, 1942. The nature of competition. 1944. *Columbia.*

Joel G. Colton, A.B., College of the City of New York, 1937; M.S., 1938; M.A., Columbia, 1940. Position of the laborer in French mercantilist thought, 1700-1750. 1944. *Columbia.*

James Dingwall, A.B., Queens, 1938; A.M., 1939. A history of English theories of the economic rôle of the state. 1943. *Chicago.*

Arthur M. Freedman, A.B., Toledo, 1938; A.M., Cincinnati, 1939. Some recent developments in the theory of interest. *Pennsylvania.*

(Charles) Dillon Glendinning, A.B., Occidental, 1939; A.M., Claremont, 1940. Studies in the theory of capital and interest. 1944. *Princeton.*

William Dyer Grampp, A.B., Akron, 1936; A.M., Chicago, 1942. Mercantilism and *laissez-faire* in American political discussion, 1787-1829. 1943. *Chicago.*

Werner Hochwald, B.S., Washington University, 1940; A.M., 1942. The dynamics of labor demand. 1943. *Washington University.*

Richard Sebastian Howey, S.B., Harvard, 1926; A.M., Southern California, 1929. A history of the utility concept in economic theory. 1943. *Chicago.*

Elmer Jeremiah Jerome, B.S.S., College of the City of New York, 1937; A.M., Columbia, 1938. Economic dualism. 1944. *Columbia.*

J. W. Keener, A.B., Birmingham-Southern; A.M., Chicago. The cost-price ratio and the supply of money. 1944. *Ohio State.*

Lawrence Kegan, A.B., College of the City of New York, 1935; M.A., Columbia, 1938. Problems related to the theory of production and capital. 1944. *Columbia.*

Irving B. Kravis, B.S., Pennsylvania, 1938; A.M., 1939. The theory of diminishing and increasing returns. 1944. *Pennsylvania.*

Maurice Lamontagne, B.-es-Sc. Sociales, Laval, 1940; Complimentary dipl. in Phil, Dominican College, Ottawa; License in Social Science, Laval, 1941; A.M., Harvard, 1943. The problem of methodology in economics. *Harvard.*

Charles Edward Lindblom, A.B., Stanford, 1937. Competition and social control in the marketing of personal productive capacity in a capitalistic economy. 1943. *Chicago.*

Mary Edna Lonigan, A.B., Barnard, 1916; A.M., Columbia, 1927. The economic organization of work in the United States. 1945. *Columbia.*

Arthur Edward Mace, Jr., A.B., Amherst, 1938. Economics of wage differentials. 1943. *Chicago.*

George T. Matthews, A.B., Columbia, 1939; A.M., 1940. Economic ideas among the French philosophers. 1944. *Columbia.*

Herbert Carpenter Morse, A.B., Oberlin, 1932; A.M., Columbia, 1941. Essays in the theory of trade. 1944. *Columbia.*

Alfred Richard Oxenfeldt, B.A., Pennsylvania, 1937; M.A., Columbia, 1938. New firms and free enterprise. 1943. *Columbia.* (Published by the American Council on Public Affairs.)

Benjamin Paskoff, B.S., College of the City of New York, 1936; A.M., Columbia, 1937. The political and economic philosophy of Linguet. 1944. *Columbia.*

Allen M. Sievers, A.B., Chicago, 1939; A.M., Columbia, 1941. Nomics and economics. 1945. *Columbia.*

William Joseph Jordan Smith, III, A.B., Texas, 1940. The economics of Thorstein Veblen. 1945. *Duke.*

James Hartmann Stauss, A.B., Grinnell, 1936; S.M., Iowa State, 1937. History and criticism of American theories of profit. 1943. *Wisconsin.*

Curwen Stoddart, B.S., 1930; A.M., New York, 1934. Institutional method and economic science. 1945. *New York.*

Washington SyCip, B.S.C., Santo Tomas (Manila), 1939; M.S.C., 1940. Relationship between economic and accounting theory. 1945. *Columbia.*

Leslie Charles Tihany, A.M., Northwestern, 1933; Ph.D., 1936; A.M., Harvard, 1938. French utopianism from Veiras to Babeuf. 1943. *Chicago.*

Abraham H. Venitsky, A.B., Brooklyn, 1934; A.M., Columbia, 1935. The Bronsons' (Isaac, Arthur, Frederic) economic activities, economic theory. 1945. *Columbia.*

Charles S. Wyand, A.B., Pennsylvania State, 1929; A.M., 1934. The economics of replacement demand. 1944. *Columbia.*

Economic History

Degrees Conferred

Joseph Alexander Batchelor, Ph.D., Northwestern. An economic history of the Indiana oolitic limestone industry.

Edward Gail Daniel, Ph.D., Harvard, 1943. United States postal service and postal policy, 1789-1860.

Edgar Winfield Martin, Ph.D., Chicago, 1942. The standard of living in 1860: American consumption levels on the eve of the Civil War. (Published by the University of Chicago Press.)

Theses Completed and Accepted

George Taylor Conklin, A.B., Dartmouth, 1936; M.C.S., 1937. Trends in the economy of New York City. 1943. *New York.*

Margaret Richards Pabst, A.B., Vassar, 1931; A.M., Chicago, 1932. Some trends in agriculture in the Connecticut River Valley region of Massachusetts during the nineteenth century. 1943. *Columbia.* (Published as a Smith College Study in History.)

Seymour L. Wolfbein, M.A., Columbia, 1937. The decline of a textile city: a study of New Bedford. 1943. *Columbia.*

Theses in Preparation

Marion D. Bonzi, A.B., Rockford, 1928; A.M., Illinois, 1929. George M. Pullman and the Pullman Company. 1943. *Chicago.*

Robert John Braidwood, A.B., Michigan, 1932; A.M., 1933. The comparative archeology of early Syria: from the time of the earliest known village cultures through the Akkadian period. 1943. *Chicago.*

Virginia W. Buckner, A.B., Texas, 1941; A.M., 1942. An American frontier for 1949-ers. 1945. *Columbia.*

Jacqueline Bull, A.B., Kentucky, 1934. Rural merchandising in the post-war South. 1945. *Kentucky.*

Robert F. Campbell, A.B., Yale, 1939; A.M., Columbia, 1940. The New York business community and politics: 1856-1880. 1944. *Columbia.*

Theodore Cohen, B.S.S., College of the City of New York, 1938; A.M., Columbia, 1939. Merchant capital in feudal Japan. 1944. *Columbia.*

Peter H. Delaney, II, A.B., Yale, 1937; A.M., 1939. Economic readjustments in Rhode Island, 1783-1800. 1944. *Columbia.*

Raymond Adrien de Roover, L.S.C.F., Institut Sup. de Commerce, 1924; M.B.A., Harvard, 1938. Money, banking, and credit in medieval Bruges: Italian merchant bankers, lombards, and money-changers. 1943. *Chicago.*

Felicia Johnson Deyrup, A.B., Barnard, 1938; A.M., Columbia, 1939. Economic history of small arms manufacture in the Connecticut River Valley. 1944. *Columbia.*

James H. Easterby, A.B., Charleston, 1920; A.M., Harvard, 1922. The South Carolina rice plantation as revealed in the papers of Robert F. W. Allston. 1943. *Chicago.*

JOHN WILLIAM FREDERICKSON, B.S., Northwestern, 1938. The American merchant marine, 1820-1860. 1943. *Chicago*.

RUDOLF W. FREYHAN. On reciprocal reactions and repercussions of the economic and political decay of the ruling class in the early Victorian age. 1943. *Chicago*.

WILLIAM BYRAM GATES, JR., A.B., Williams, 1939. Government reorientation of social and economic life during the Civil War; a study of federal, state, and local controls over economic activity in the North, 1861-1865. 1943. *Chicago*.

HENRIETTA E. HAFEMAN, A.B., Lawrence, 1925; A.M., Wisconsin, 1928. Alexander MacDonald, labor member of Parliament. 1943. *Chicago*.

WILLIAM HALLER, JR., A.B., Columbia, 1936; A.M., 1938. Frontier settlement in Puritan New England, 1620-1670. 1944. *Columbia*.

JOHN HARVEY KENT, A.B., Queen's 1930; A.M., 1934. The temple estates of Delos, Rheneia, and Mykonos. 1943. *Chicago*.

HAROLD OVER LEWIS, B.A., Amherst, 1929; M.A., Howard, 1930. The growth of the seventeenth century Danish capitalism. 1945. *American*.

D. E. MCCOWN, A.B., California, 1932. An historical study of the material culture of Iran before the middle of the third millennium B.C. 1943. *Chicago*.

CYRIL NEIL MCKINNON, A.B., Marquette, 1925; A.M., 1936. The breakdown of the guilds. 1943. *Chicago*.

JOHN TETTEMER O'NEIL, B.S., North Carolina, 1934; M.B.A., Harvard, 1936. The financial and economic history of the Chesapeake and Ohio Railroad. 1945. *Northwestern*.

JOAN PIFER, A.B., Vassar, 1935; A.M., Columbia, 1936. The Kingdom of Piedmont, 1815-1830: an economic and social study. 1944. *Columbia*.

REGINALD CHARLES STEWART SHEPPARD, A.B., University of Wales, 1939; M.B.A., New York, 1940. The depressed areas of South Wales. 1945. *Columbia*.

MARTHA VAN HOESEN TABER, A.B., Bryn Mawr, 1939; A.M., Columbia, 1940. History of the cutlery industry in the Connecticut Valley, 1830-1939. 1944. *Columbia*.

ROBERT HENRY VAN VOORHIS, A.B., Duke, 1939; A.M., 1941. Borrowing our way into socialism: the economic thought of Pierre Joseph Proudhon. 1944. *Duke*.

WILLIAM C. WILBUR, JR., A.B., Washington and Lee, 1937. The influence of Fabian socialism on the Liberal party. 1944. *Columbia*.

EDWARD B. WILLIAMS, A.B., Morehouse, 1927; A.M., Atlanta, 1937. The Negro in industry in the ante-bellum South. 1944. *Columbia*.

Economic Systems; National Economies; Post-War Planning

Degrees Conferred

ROLAND BUFORD BRANDIS, JR., Ph.D., Duke, 1943. British war economy: the first two years.

Theses Completed and Accepted

ANDREW GRAJDANZEV, B. of Econ., Harbin, 1932; A.M., Columbia, 1938. Modern Korea, economic and social development under the Japanese. 1943. *Columbia*. (Published in the International Research Series of the Institute of Pacific Relations.)

Theses in Preparation

HARMAN BURSTEIN, B.S., Ohio State, 1940; A.M., Oberlin, 1941. Economics of Pan American solidarity. *New York*.

ALEXANDER BAIRD. Economic background of the modern state. 1944. *New York*.

MUZAFFER MEHMET ERSELCUK, A.B., Robert College (Istanbul), 1938; A.M., Indiana, 1940. The Japanese war economy. 1944. *Indiana*.

Statistics; Economic Mathematics; Accounting

Degrees Conferred

Albert Ben Carson, Ph.D., Nebraska, 1943. The concept of revenue in accounting, income tax law, and economic theory.

Edward K. Cratsley, D.C.S., Harvard, 1943. Inventory accounting policies with particular reference to concerns which tan leathers.

Raymond J. Jessen, Ph.D., Iowa State, 1943. Statistical investigation of sample survey for obtaining farm facts.

Michael James Jucius, Ph.D., Chicago, 1942. The objectives of uniform accounting.

Theses in Preparation

Ira Dennis Anderson, B.S., Indiana, 1929; M.B.A., Northwestern, 1930. An evaluation of the retail inventory method of accounting. 1944. *Northwestern.*

Kenneth J. Arrow, B.S., College of the City of New York, 1940. Analysis of economic time series. 1945. *Columbia.*

Albert R. Beisel, Jr., A.B., Dartmouth, 1931; LL.B., Yale, 1934. Legal and economic aspects of the theory of depreciation. 1944. *Columbia.*

William Herbert Childs, A.B., Morningside, 1927; A.M., Michigan, 1935. Accounting for consolidations. 1945. *Columbia.*

Roland W. Funk, B.S., Utah, 1933. Inventory theory. 1943. *Chicago.*

Billy E. Goetz, Ph.B., Chicago, 1924. A managerial approach to industrial accounting. 1943. *Chicago.*

Frank Sanford Kaulback, Jr., B.S., Virginia, 1934; M.A., 1942. Capital accounts under selected state corporation statutes. 1944. *Virginia.*

Charles William Lamden, A.B., California, 1937; M.A., 1939. Legal problems in corporate accounting. 1944. *California.*

Daniel Lipsky, A.B., Columbia, 1931; M.S., 1934. A reëxamination of accounting principles with particular reference to published reports. 1944. *Columbia.*

Guy Henderson Orcutt, B.S., Michigan, 1939; A.M., 1940. Electrical machines and the mathematical methods appropriate to them for use in economic statistical research. 1944. *Michigan.*

Ellis Mast Sowell, B.S., Stephen F. Austin State Teachers, 1934; M.B.A., Texas, 1936. Evolution of predetermined costs. 1945. *Texas.*

A. Maxwell Ule, M.B.A., Chicago, 1937. The statistical allocation of advertising appropriations for a durable consumer good. 1943. *Chicago.*

Elmer Richard Young, B.S., Utah, 1936; M.S., 1937. Distribution cost accounting. 1945. *Columbia.*

Herschel Lee Waldron, A.B., Hendrix, 1924; S.M., Oklahoma Agricultural and Mechanic, 1932; S.B., Central State Teachers (Oklahoma), 1938. State supervision of municipal accounting. 1943. *Chicago.*

John Frederick Weston, M.B.A., Chicago, 1942. The meaning and measurement of excess profits. 1943. *Chicago.*

Business Cycles and Fluctuations

Degrees Conferred

Grant Illion Butterbaugh, Ph.D., Chicago, 1942. The measurement of business activity in the Puget Sound area. (Published in the University of Chicago *Journal of Business*, Studies in Business Administration, XIII, No. 2.)

David William Lusher, Ph.D., Harvard, 1942. The structure of interest rates: a theoretical and empirical analysis of its characteristics and cyclical behavior.

Wilson Frels Payne, Ph.D., Chicago, 1942. An analysis of the business cycle, 1919-22. (Published in the University of Chicago *Journal of Business*, Studies in Business Administration, XII, Nos. 4 and 5.)

Joseph Edwin Reeve, Ph.D., Chicago, 1939. Monetary proposals for curing the depression in the United States, 1929-35. (Published by the American Council on Public Affairs.)

Theses Completed and Accepted

George W. Van Vleck, B.S., Colgate, 1909; Pd.M., New York, 1918; A.M., 1919. The panic of 1857. 1943. *Columbia.* (Published by the Columbia University Press.)

Theses in Preparation

Janet Austrian, A.B., Bennington, 1939. Acceleration and retardation in cyclical movements. 1944. *Columbia.*

Carl Anton Dauten, A.B., Washington University, 1936; A.M., 1939. Investment and the level of business: an analysis and an appraisal of the T.N.E.C. thesis concerning the relationship of investment and saving to the full use of our productive resources. 1944. *Washington University.*

Loreto Marcelina Dominguez, Public Accountant, Buenos Aires, 1938; M.B.A., Harvard, 1941; M.A., 1942. Business cycles in agricultural countries. *Harvard.*

Pavel Petroff Egoroff, B.S., Agricultural College (Sofia), 1925. The rôle of agriculture in the dynamic of Argentine economy. 1944. *Stanford.*

Evan Bond Hannay, A.B., Washington, 1936; A.M., Stanford, 1937. The rôle of machine-tool industry in business cycles. 1944. *Princeton.*

Harold Burke Horton, B.B.A., Texas, 1937; M.B.A., 1938. The relationship between agricultural commodity price fluctuations and business cycles in the United States, 1918-1939. 1944. *Columbia.*

Martin V. Jones, M.B.A., Chicago, 1940. Critique of the theory of economic maturity as a cause of business depression. 1943. *Chicago.*

Harold W. Sasse, B.S., New York, 1924; A.M., Columbia, 1928. Toward an understanding of business forecasting. 1945. *Columbia.*

David Schwartz, A.B., Columbia, 1938; A.M., California, 1941. Secular changes in American business cycle history. 1944. *Columbia.*

Julius Shishkin, A.B., Rutgers, 1934; A.M., 1936. The relation between seasonal and cyclical movements. 1945. *Columbia.*

Roland G. Stucki, B.S., Brigham Young, 1930; M.S., Utah, 1932; M.B.A., Stanford, 1932. The stabilization of consumer purchasing power. 1944. *Cornell.*

James Harold Symons, A.B., Seton Hall, 1930; A.M., Columbia, 1937. The mature economy in economic theory. 1944. *New York.*

Public Finance; Fiscal Policy; Taxation

Degrees Conferred

Louis Kohl Brandt, Ph.D., Wisconsin, 1943. Shifting and incidence of real property taxes.

Yau Pik Chau, Ph.D., Chicago, 1942. The taxation reforms of the Chinese National Government in the decade 1927-37.

Archie Bristol Goodman, Ph.D., Wisconsin, 1943. Assessment administration in Wisconsin.

T. Levron Howard, Ph.D., Wisconsin, 1943. Federal payments in lieu of taxation.

Vernon L. Israelson, Ph.D., Wisconsin, 1942. Economic and social aspects of homestead tax exemption.

Lawrence Bennett Jack, Ph.D., McGill, 1943. Control of municipal finance in three federal countries: Canada, the United States and Australia.

Richard Wadsworth Lindholm, Ph.D., Texas, 1942. The corporate franchise as a basis of taxation.

Oscar Frederick Litterer, Ph.D., Wisconsin, 1943. Capital gains and losses.

Philip Neff, Ph.D., California, 1943. Government finance and interest rates.

Theses Completed and Accepted

Shin-hsin Chou, A.B., Yenching, 1935; A.M., California, 1940. The capital levy. *Columbia.*

Paul W. Ellis, A.B., Willamette, 1931; A.M., Oregon, 1933. Effect of taxes upon corporate policy. 1943. *Columbia.*

Sherwood M. Fine, B.A., New York, 1936; A.M., Columbia, 1937. Public spending and postwar economic policy. 1943. *Columbia.*

Challis Alva Hall, Jr., B.S., Kansas, 1938; A.M., Harvard, 1943. Theories of public debt: history and analysis. *Harvard.*

Theses in Preparation

Norris J. Anderson, M.A., Colorado, 1931. Land classification as an aid to assessment. 1944. *Minnesota.*

Martin Atlas, A.B., New York, 1934; A.M., Columbia, 1935. Collection of income tax at source. 1944. *Columbia.*

William Alfred Bentien, A.B., Wisconsin, 1926. An analysis of the government's easy money policy and its economic effects. 1945. *New York.*

John Chalmers, A.B., Middlebury, 1938. New York state personal income tax, 1919-1942. 1943. *Cornell.*

Clarence Colton Dawson, B.S., Kentucky, 1927; M.A., George Peabody, 1931. Development of Kentucky state tax administration since 1853. 1945. *Kentucky.*

Lyle C. Fitch, B.S., Nebraska State Teachers, 1935; A.M., Nebraska, 1938. War finance and government debt. 1944. *Columbia.*

Marion Hamilton Gillim, A.B., Mt. Holyoke, 1930; A.M., Columbia, 1938. The incidence of excess profits taxes. 1944. *Columbia.*

Richard Benjamin Goode, A.B., Baylor, 1937; A.M., Kentucky, 1939. The corporate institution and the tax problem. 1944. *Wisconsin.*

Clara Grey, A.B., Mt. Holyoke, 1936. The remission of consumption taxes during a cyclical depression. 1945. *Columbia.*

Franklin P. Hall, A.B., Oregon, 1929. Indiana gross income tax. 1943. *Wisconsin.*

Louis Halpern, B.S., College of the City of New York, 1941; A.M., New York, 1942. British financing of the Second World War (1939-1944). 1945. *New York.*

John Nathaniel Hart, B.S., Ohio State, 1931; M.A., 1932. Taxation of business corporations in Ohio: a statistical study. 1944. *Ohio State.*

Guy Raynor Hill, A.B., Drury, 1927. Public utility taxation in New York State. *New York.*

George E. Lent, A.B., Renssalaer Polytechnic, 1934; M.B.A., 1935. Wartime borrowing methods. 1945. *Columbia.*

Matilda Lois Milne, B.A., Wellesley, 1928; M.B.A., New York, 1931. Defense borrowing and control of credit. *New York.*

GLENN D. MORROW, A.B., Murray State Teachers, 1933; M.A., George Peabody, 1940. State-local relations in Kentucky fiscal administration. 1944. *Kentucky.*

JULIUS CARL POINDEXTER, B.S., Virginia, 1933; M.A., 1941. Recent proposals for interest-free deficit financing. 1944. *Virginia.*

ROBERT ALVIN RENNIE, A.B., Wesleyan, 1939; A.M., Harvard, 1942. Federal-provincial aspects of the Argentine fiscal policy. 1944. *Harvard.*

WILLIAM KRESS SCHMELZLE, B.A., Juniata, 1930; M.B.A., Pennsylvania, 1931. The tax factor and the localization of industry in the Pacific Coast states. 1944. *California.*

EARLE FENTON SHEPARD, A.B., Colorado, 1936; A.M., 1938. Taxation and monetary control. 1945. *Michigan.*

KENNETH M. SPANG, A.B., Dartmouth, 1933; A.M., Columbia, 1936. Money as a store of value. 1944. *Columbia.*

WALTER FRITZ STETTNER, LL.D., Vienna, 1937; A.M., Harvard, 1941. Nineteenth century debt theories in Great Britain and Germany and their relevance for present-day analysis. 1943. *Harvard.*

JOHN ARCHIBALD STOVEL, A.B., McGill, 1940; A.M., 1941; A.M., Harvard, 1943. War finance. *Harvard.*

JANET RACOLIN SUNDELSON, B.S., Columbia, 1936; M.A., 1938. Ownership of public debt. 1944. *Columbia.*

ANDREW M. TULLY, A.B., Manhattan, 1940; A.M., Columbia, 1941. The tax credit and fiscal control in the United States. 1945. *Columbia.*

WILLIAM NEWTON WATSON, B.S., Alberta, 1933; A.B., 1937. The federal estate tax of the United States. 1944. *Columbia.*

Money and Banking; Short-Term Credit

Degrees Conferred

ROBERT W. MERRY, D.C.S., Harvard, 1943. An analysis of and proposal for the bank examination policy of federal supervisory authorities.

WALLACE PETER MORS, Ph.D., Chicago, 1942. Theories of consumer credit—an historical and critical analysis. (Published in the University of Chicago *Journal of Business*, Studies in Business Administration, XVI, Nos. 1 and 2.)

WILLIAM TAYLOR PHILLIPS, Ph.D., Cornell, 1942. History and application of the office of the comptroller of the currency.

STERLING POPPLE, D.C.S., Harvard, 1943. Development of two bank groups in the Central Northwest: a study in bank policy and organization. (Published by Harvard University Press.)

WILLIAM T. RHAME, D.C.S., Harvard, 1942. Competitive advantages and disadvantages of agencies making short- and medium-term loans to industry.

JOHN BROOKE WILLIS, Ph.D., Columbia, 1943. The functions of the commercial banking system. (Published by Columbia University Press.)

Theses Completed and Accepted

EMANUEL THORNTON WEILER, A.B., De Pauw, 1937; M.A., Minnesota, 1939. The flow of money payments and the use of accounting data for economic analysis. *Minnesota.*

Theses in Preparation

W. O. ANDERSON, B.S., Ohio State, 1938; A.M., 1941. An analysis of bank deposits. 1945. *Ohio State.*

PAUL ARNOLDS-PATRON, B.S., New York, 1936; M.B.A., 1937. The theory and practice of commercial bank reserves in the United States. 1944. *New York.*

REV. EDWARD JOHN BURNS, O.S.A., A.B., Villanova, 1937; A.M., Catholic, 1941. Com-

mercial banking in Philadelphia, 1915-1941. 1944. *Catholic.*

Elizabeth Whitbeck Donovan, A.B., Woman's College of the University of North Carolina, 1934; A.M., North Carolina, 1936. The history of banking in North Carolina since the Civil War. 1944. *North Carolina.*

John Edward Exter, A.B., Wooster, 1932; A.M., Fletcher, 1934. Currency warfare in China since 1937. 1943. *Harvard.*

Wesley Clifford Haraldson, B.A., Jamestown, 1935; M.A., Iowa, 1940. The flow of funds into and out of the Ninth Federal Reserve District. 1945. *Minnesota.*

Hervey D. Hotchkiss, B.S., Buffalo, 1934; A.M., Cornell, 1936. The guaranty of bank deposits. *New York.*

Elgin Fraser Hunt, A.B., Oberlin, 1917. A study of the textbook literature on money and banking. 1943. *Chicago.*

Arthur Kemp, B.S., Buffalo, 1939; M.B.A., Northwestern, 1940. Lawful money, legal tender and money receivable for specific purposes. 1944. *New York.*

Rev. Brian A. Kirn, O.F.M., A.B., St. Joseph's 1935; A.M., Catholic, 1941. Annual reports of commercial banks. 1943. *Catholic.*

Joseph E. Loftus, A.B., Notre Dame, 1937. Bank capital ratio regulation. 1945. *Johns Hopkins.*

Walter B. Meigs, B.S., Kansas, 1935; M.B.A., 1938. Supervision of non-member state banks by the Federal Deposit Insurance Corporation. 1944. *Southern California.*

Bernard Nortman, B.S.S., College of the City of New York, 1934; A.M., Columbia, 1935. Interest rates. 1944. *Columbia.*

William Harold Poole, A.B., Alberta, 1932; A.M., 1934. The supply and control of money in Canada. 1943. *Chicago.*

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Rollin Head Simonds, B.S., Northwestern, 1935; M.A., 1936. Capital credit banks. 1944. *Northwestern.*

Gunther Steinberg, A.B., Iowa State Teachers, 1936; M.B.A., Chicago, 1938. The economic significance of the behavior of the assets and liabilities of banks. 1943. *Chicago.*

Richard Tulloss Stevens, A.B., Ohio State, 1926; M.A., 1931. Economic implications of the changing character of bank assets. 1944. *Ohio State.*

William John Stibravy, A.B., Columbia, 1939; A.M., 1940. The place of the central bank in the modern economy. 1945. *Columbia.*

Frank J. Tamby, B.C.C., New York, 1931. The Federal Reserve Bank of Philadelphia. 1944. *Columbia.*

William Walter Tongue, A.B., Dartmouth, 1937; M.C.S., Amos Tuck, 1938. Factors affecting the supply of member bank reserve funds in the Seventh Federal Reserve District, 1928-1943. 1943. *Chicago.*

International Trade, Finance, and Economic Policy

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Arthur Irving Bloomfield, Ph.D., Chicago, 1942. International capital movements and the American balance of payments, 1929-40.

Walter Wells Haines, Ph.D., Harvard, 1943. Superbank and the Bank for International Settlements.

Michael Lindsay Hoffman, Ph.D., Chicago, 1942. The economics of fluctuating exchanges.

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Hans Adler, Dr. Juris. Prague. The determinants of the volume of foreign trade of the United States, 1920-1938. 1943. *Yale.*

Nathan A. Bailey, B.S.S., College of the City of New York; A.M., Columbia, 1941. The economists and the tariff controversy. *Columbia.*

Wilson Thomas Moore Beale, A.B., Princeton, 1931; M.B.A., Pennsylvania, 1933. British protective policy. 1945. Pennsylvania.

John S. de Beers, A.B., Cornell, 1937; A.M., American, 1939. Commercial relations between Germany and the United Kingdom, 1930-1939. 1943. *Chicago.*

Joseph Randall Burchard, Jr., A.B., Southeast Missouri State Teachers, 1940. Foreign policy of the British labor party since 1933. 1943. *Chicago.*

James Dixon Calderwood, B. Com., London School of Economics, 1938. The international implications of British economic foreign policy, 1931-1939. 1943. *Ohio State.*

Annabelle G. Corrigan, B.S., New York, 1932; A.M., Columbia, 1933. History of French foreign lending, 1918-1938. 1944. *Columbia.*

C. Sidney Cottle, A.B., Whitman, 1931; M.B.A., Stanford, 1934. Tariff-making under the Trade Agreements act. 1944. *American.*

Sergei Pavlovich Dobrovolsky, Dip. Harbin, 1930. Foreign exchange control as a factor influencing general levels of prices and volume of foreign trade. 1945. *Columbia.*

William J. Heuser, A.B., Columbia, 1940; A.M., 1941. The Russian attitude toward trade with Germany, 1891-1916. 1944. *Columbia.*

Clyde E. Hewitt, A.B., Aurora, 1937; A.M., Chicago, 1939. Venezuela and the origins of dollar diplomacy. 1943. *Chicago.*

R. E. Keohane, A.B., William Jewell, 1924; A.M., California, 1926. The attitude of the socialist parties toward international war, 1848-1914. 1943. *Chicago.*

Arthur Lowell Kirkpatrick, A.B., Illinois, 1935; A.M., 1937. Clearing agreements in international trade. 1943. *Brown.*

Richard Sabourin Landry, A.B., Amherst, 1938; A.M., Chicago, 1941. Unfair competition in foreign trade. 1943. *Chicago.*

Jack Letiche, A.B., McGill, 1940; A.M., 1941. Foreign exchange control between the United States and Canada. 1943. *Chicago.*

Herbert Kenneth May, A.B., Michigan, 1938; A.M., 1941. Stabilization funds. 1945. *Michigan.*

William Braman Palmer, A.B., Michigan, 1929; A.M., 1930. Studies in the theory of foreign exchange rates. 1944. *Michigan.*

Wallace J. Parks, A.B., Williams, 1932; LL.B., George Washington, 1937. Federal import control. 1944. *Columbia.*

Walter Richardson Peabody, A.B., Amherst, 1918. An index of the physical volume of foreign trade. 1945. *New York.*

Nicholas Michael Petruzzelli, A.B., Portland, 1937; A.M., Catholic, 1939. Economic and social aspects of the inter-American coffee agreement. 1944. *Catholic.*

Clinton Wilson Randle, B.A., Duke, 1931; M.A., 1938. United States-Latin American trade relations, 1900-1940. 1943. *Kentucky.*

Ladislas Reitzer, Dr. Juris., Royal Hungarian University, 1936; Dr. Pol. Sci., University of Geneva, 1938. Early relations between Great Britain and Argentina. 1943. *Chicago.*

Ralph Elberton Smith, A.B., Wooster, 1935. The valuation of imports in the United States: a study in tariff administration. 1943. *Chicago.*

Marvin Meyer van Stock, M.B.A., Chicago, 1939. German methods in international trade and the structure of American foreign commerce. 1943. *Chicago.*

Paul Anthony Volpe, A.B., British Columbia, 1939; A.M., Catholic, 1942. The international monetary and banking crisis of 1931. 1943. *Catholic.*

Charles Ashley Wright, A.B., Princeton, 1928; A.M., 1929. The limitations of monetary policy. 1945. *Columbia.*

Business Finance; Insurance; Investments; Securities Markets

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Lynn L. Bollinger, D.C.S., Harvard, 1942. Financing defense orders, working capital problems. (Published by McGraw-Hill Book Co.)

Earl S. Garver, Ph.D., Yale, 1943. Mortgage insurance.

Arthur Lesser, Jr., Ph.D., New York, 1943. Stockholders' representation in corporate management.

John Holmes Myers, Ph.D., Northwestern. The effect of raising new capital by security issues upon the company's common stock prices.

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Albert Ralph Koch, A.B., Oberlin, 1936; A.M., Columbia, 1937. The financing of large corporations, 1920-1939. 1943. *Columbia.* (Published by the National Bureau of Economic Research as Study No. 4 in Business Financing of its Financial Research Program.)

Arthur Lesser, Jr., M.E., Stevens Institute, 1931; M.B.A., New York, 1935. Stockholders' representation in corporate management. 1943. *New York.*

Robert I. Mehr, B.S., Alabama, 1938; M.S.,1939. Real estate problems of life insurance companies. 1943. *Pennsylvania.*

Charles Mann Winkler, B.S., College of the City of New York, 1911; C.E., Brooklyn Polytechnic, 1913. The replacement of life insurance policies. 1943. *Columbia.*

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Francis T. Allen, B.S., Pennsylvania, 1922; M.A., 1930. The rehabilitation or liquidation of insurance companies. 1944. *Pennsylvania.*

Ona Bielogurskas, Licenciée en Droit et en Sciences Economiques, Strasbourg, 1937; Diplomée d'Etudes Supérieures Economiques, Paris, 1940. The business corporation in France. 1945. *Johns Hopkins.*

Emerson T. Cammack, B.S., Oklahoma, 1940; M.A., 1941. The rehabilitation of life insurance companies. 1944. *Pennsylvania.*

Lucile Derrick, B.S., Eastern Kentucky State Teachers, 1931; A.M., George Peabody, 1934. Tax exemption and the yields from investment. 1943. *Chicago.*

Jack P. Donis, A.B., Chicago, 1938; M.B.A., George Peabody, 1939. Corporate promotion and reorganization in subnormal business. 1943. *Chicago.*

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DONALD J. EMBLEN, A.B., Ohio, 1932; M.B.A., Pennsylvania, 1935. Competitive bidding for corporate issues. 1943. *Columbia.*

MORTIMER JOSEPH GLEESON, B.B.A., College of the City of New York, 1932; M.B.A. New York, 1936. Securities of air transport companies. *New York.*

ANNA JACOBSON (SCHWARTZ), A.B., Barnard, 1934; A.M., Columbia, 1935. British share prices and joint stock enterprise. 1944. *Columbia.*

ACIS JENKINSON, 3d, B.S., Pennsylvania, 1935; M.A., 1937. Facts involved in measuring the amount of life insurance to be carried on the life of an individual for business purposes. 1944. *Pennsylvania.*

RICHARD BUHMANN JOHNSON, B.A., Texas, 1934; M.A., 1936. The legal reserve life insurance industry in the United States: as appraisal of its operations and proposal for reform. 1944. *Texas.*

RICHARD DER. KIP, B.S., Pennsylvania, 1936. Do the education efforts of academic institutions and insurance companies in America at present meet the needs of those going into business and into the insurance business? 1944. *Pennsylvania.*

GEORGE KOGEL, B.S., Columbia, 1936; M.S., 1937. Corporate reorganization and the financial plan. 1944. *Columbia.*

ARNOLD R. LAFORCE, B.S., Middlebury, 1935; M.B.A., New York, 1938. Operation of syndicates in distribution of securities. 1944. *New York.*

ALEX LOVERDOS, Dr. of Pol. Stud., Athens, 1935. Imperfections in money markets, local and international. 1945. *Columbia.*

ALBERT HENRY MARVILL, B.S., Pennsylvania, 1922. Priorities in corporate reorganization. 1944. *New York.*

MARK S. MASSEL, B.S., New York, 1930; A.M., 1933. Business reserves for postwar survival. 1943. *Columbia.*

JOSEPH ANTHONE MAURIELLO, B.S., New York, 1939; M.B.A., 1940. Analysis of variations in standard costs, sales and profits. 1944. *New York.*

JOHN BOTHWELL MCCONAUGHY, A.B., Alabama, 1933; A.M., 1935. The American bankers and Latin American public loans, 1919-29. 1943. *Chicago.*

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ARTHUR F. MESSENGER, A.B., Ohio Wesleyan. Liquidity in the securities markets. 1944. *Ohio State.*

JAMES JOSEPH O'BRIEN, B.S., Manhattan, 1938. Securities of fire insurance companies. *New York.*

ALLAN L. RITTER, A.B., De Pauw, 1935. A study of the flow of capital required to maintain the proper balance in our economic organization. 1944. *Wisconsin.*

HARVEY J. SARLES, A.B., Hamilton, 1930; A.M., Columbia, 1934. Life insurance companies investments and bonds. 1945. *Columbia.*

A. C. WILT, B.S., Pennsylvania, 1925. A study of workmen's compensation carriers in Pennsylvania. 1944. *Pennsylvania.*

Public Control of Business; Public Administration; National Defense and War

Degrees Conferred

HENRY BRODIE, Ph.D., New York, 1943. Selective price control in Canada, World War. II.

EMANUEL JAY HOWENSTEIN, III, Ph.D., Ohio State, 1943. The economics of demobilization after World War I.

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Harvey T. Deinzer, A.B., Michigan, 1932; M.B.A., 1933. Aims and standards of wartime price control. 1945. *Michigan.*

William Donald Knight, A.B., Beloit, 1938; M.B.A., Michigan, 1940. The concept of capital and public control. 1945. *Michigan.*

George Bernard Kohnen, B.S., 1928; M.A., Catholic, 1933. Regulation of operating utility security issues by the Securities and Exchange Commission. 1945. *Northwestern.*

Charlotte Feldman Muller, A.B., Vassar, 1941; A.M., Columbia, 1942. The significance of the antitrust movement since 1933, with emphasis on the aluminum industry. 1945. *Columbia.*

Easton Nelson, B.A., Stephen F. Austin State Teachers, 1928; M.A., Texas, 1929. Some aspects of government intervention in economic enterprise in the Republic of Panama. 1943. *Texas.*

William Nielander, B.S., Pittsburgh, 1930; M.S., Columbia, 1931. Wartime rationing of food. 1946. *Columbia.*

Orme W. Phelps, A.B., Chicago, 1937; M.B.A., 1939. A case study in public administration. 1943. *Chicago.*

Ernest John Hamilton Spence, B.A., Manitoba, 1935; B. Com., Queen's, 1938; M.B.A., Northwestern, 1939. Government credit and lending agencies with particular reference to small business financing. 1946. *Northwestern.*

Frank Hathaway Towsley, A.B., Tufts, 1913; LL.B., George Washington, 1919; LL.B., Columbia, 1920. The court as a coördinate part of regulative process. 1945. *Columbia.*

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Degrees Conferred

Elizabeth Armour Curtiss. Ph.D., Chicago, 1942. Trade barriers and the consumer interest.

William Kling, Ph.D., Clark, 1943. Some factors affecting northeastern tomato prices.

George F. F. Lombard, D.C.S., 1942. The functions of the executive in securing satisfaction for the members of his organization.

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Frank Joseph Kottke, A.B., Northwestern, 1937; A.M., 1938. Technological progress and industrial organization: their relation in the manufacture of electrical apparatus. *Columbia.*

Theses in Preparation

Robert Hugh Bingham, A.B., Ohio Wesleyan, 1939; A.M., Michigan, 1941. Basing-point systems and public policy. 1945. *Michigan.*

Gladys E. Brams, A.B., Hunter, 1936; M.A., Columbia, 1943. The changing legal concept of price discrimination. 1945. *Columbia.*

Paul Lowry Brown, B.S., Illinois, 1937; M.S., Oklahoma Agricultural and Mechanic, 1940. The economics of small business enterprise. 1944. *Ohio State.*

Eugenio Castillo. The banana industry. 1945. *Johns Hopkins.*

Robert Henry Seale Eakens, A.B., Texas, 1933; A.M., 1937. Price determination in the petroleum industry. 1944. *Columbia.*

MORRIS FORKOSCH, LL.B., St. John's, 1930; LL.M., 1932; A.B., New York, 1936; A.M., 1938. The liquor industry. 1944. *New York.*

RICHARD J. L. HERSON, B.S., College of the City of New York, 1938; M.S., Columbia, 1939. Factoring—its development and functions. 1944. *Columbia.*

WALTER EVANS HOADLEY, JR., A.B., California, 1938; M.A., 1940. The Pacific Coast petroleum industry: market structure and pattern of competition for refined products. 1944. *California.*

JOHN ELTON HODGES, B.B.A., Texas, 1935; M.B.A., 1937. Overhead cost, price policy, and the determination of output. 1944. *California.*

HARRY ARTHUR HOPF, B.C.S., New York, 1906; M.B.S., 1914; M.B.A., 1924. Relation of size of business enterprises to managerial accomplishment. 1944. *Columbia.*

LEONARD KAMSKY, B.S., Richmond, 1939. Economic control in the motion picture industry. 1945. *Johns Hopkins.*

JOSEFINE KLUCKAUF, Dr. of Civil Law, Prague. The match trust. 1944. *Columbia.*

WALTER KLUCKAUF, Dr. of Civil Law, Prague. The international sugar cartel. 1944. *Columbia.*

HENRY JINDRICK MALKARY, Technical School, Royal Hungarian University, Budapest, 1919; M.B.A., New York, 1929. Some economic implications of idle and excess production facilities in the control of overhead costs. 1944. *Columbia.*

SAMUEL NAKASIAN, A.B., New York, 1940; A.M., Columbia, 1941. The New York milk industry—a study in market organization and price control. 1944. *Columbia.*

ANDREAS GEORGE PAPANDREOU, A.M., Harvard, 1942. The location and scope of the entrepreneurial function. 1943. *Harvard.*

ROYAL H. RAY, A.B., DePauw, 1927; A.M., Wisconsin, 1935. Integration in the American newspaper industry. 1945. *Columbia.*

JULIUS ABRAHAM ROLLER, B.B.A., Washington, 1934. Wholesale principle in pricing. 1945. *Michigan.*

SONIA D. RISOFF, A.M., Columbia, 1937. Problems of industrial stabilization with special reference to the bituminous coal industry. 1944. *Columbia.*

IRVING H. SIEGEL, B.S., College of the City of New York, 1934; M.A., New York, 1935. The measurement of production and related concepts. 1944. *Columbia.*

CALEB ALLEN SMITH, S.B., Haverford, 1937; A.M., Harvard, 1942. Business behavior patterns and national income. 1943. *Harvard.*

GEORGE ROBERT TERRY, C.E., Cincinnati, 1930; M.B.A., Northwestern, 1939. Marketing activities in the petroleum industry of the United States with particular reference to the subject of price stabilization. 1943. *Northwestern.*

MELVILLE J. ULMER, B.S., New York, 1937; M.A., 1938. Free enterprise and price control. 1944. *Columbia.*

CHARLES A. WELSH, B.S., New York, 1934; A.M., 1937. The world dyestuffs industry. 1945. *New York.*

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CARL T. ARLT, Ph.D., Cornell, 1942. State and local restrictions on intrastate trade.

EDWARD EUGENE GALLAHUE, Ph.D., Catholic. Some factors in the development of market standards with special reference to food, drugs, and certain other household wares. (Published by the Catholic University of America Press.)

LEWIS KERR JOHNSON, Ph.D., Ohio State, 1943. A history of marketing legislation in Virginia—its social and economic effects.

EDEN CHRISTIAN LORENTZEN, Ph.D., Northwestern. The unfair sales practices acts: a critical analysis of their history and development with particular emphasis on retail grocery stores.

RAYBURN DEAN TOUSLEY, Ph.D., Northwestern. The advertising and merchandising of Washington State apples.

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EDWARD KNOX AUSTIN, A.B., Alabama, 1925; M.S., Columbia, 1927. Pre-testing of advertisements. 1944. *Columbia.*

GEORGE A. BALLENTINE, A.B., Colgate, 1922; M.B.A., Harvard, 1924. Quotas—their use in planning sales activities. 1944. *Columbia.*

EDNA DOUGLAS, B.S., Woman's College of the University of North Carolina, 1938; M.A., North Carolina, 1941. The trade area of Charlotte, North Carolina. 1944. *North Carolina.*

WILLIAM HALDER FISHER, B.S., Richmond, 1934; M.A., Virginia, 1943. The economics of the burley tobacco industry. 1944. *Virginia.*

CHARLES DORSEY FORREST, B.S., Northwestern, 1933; M.B.A., Southern California, 1940. Economic and technical aspects of small retailer advertising. 1944. *Ohio State.*

GIDEON HADARY, S.B., Illinois, 1940; S.M., Wisconsin, 1942. The relationship between chocolate milk and total fluid consumption. 1943. *Wisconsin.*

CHARLES DAVID HYSON, A.B., St. Johns, 1937; S.M., Maryland, 1939; A.M., Harvard, 1943. A monograph on the marketing of cranberries. 1943. *Harvard.*

ROY WILLIAM JASTRAM, A.B., Stanford, 1936. The economics of large-scale advertising. 1944. *Stanford.*

CHARLES WESLEY LEWIS, B.A., Vanderbilt, 1928; M.A., 1929. Criteria of efficiency in retailing. 1944. *Pennsylvania.*

GEORGE M. POLLARD, A.B., George Washington, 1934; A.M., 1939. Cottonseed oil in the industrial complex. 1944. *Columbia.*

DAVID ALLEN REVZAN, Ph.B., Chicago, 1930; A.M., 1935. The wholesale price structure for oranges with special reference to the Chicago auction market. 1943. *Chicago.*

DANIEL B. SUITS, A.B., Michigan, 1940; A.M., 1941. The laundry industry. 1945. *Michigan.*

HUGH GREGORY WALES, A.B., Washburn, 1932; M.B.A., Harvard, 1934. The Kansas City fruit and vegetable market; an historical study and appraisal of recent developments. 1943. *Northwestern.*

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ARTHUR HIGHMAN, B.S., Armour Institute of Technology, 1935; M.B.A., Chicago, 1939. Mobilization of the chemical industry for the national defense. 1943. *Chicago.*

GEORGE MERVYN KLEINER, A.B., McGill, 1936; A.M., 1937. Construction in the Fifth Federal Reserve District. 1944. *Wisconsin.*

FREDERICK JULIUS KNIGHTS, B.S., Nebraska, 1928; M.B.A., Northwestern, 1938. Growth of the rubber manufacturing industry. 1944. *Northwestern.*

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ARTHUR PETER BECKER, Ph.D., Wisconsin, 1943. Public utility valuation and the economic theory of regulation.

ANATOLE RODOLPH GRUEHR, Ph.D., New York, 1943. Development of depreciation thought in public utility regulation.

WALTER ISARD, Ph.D., Harvard, 1943. The economic dynamics of transport technology.

SERGE GEORGE KOUSHNAREFF, Ph.D., Columbia, 1943. Liability of carriers of goods by sea. (Published by Delphic Press.)

RICHARD H. RUSH, D.C.S., Harvard, 1942. The regulation of network broadcasting.

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EDWARD JOSEPH PETERSON, B.B.A., Minnesota, 1938; M.A., 1940. The flow of money and services in the railway industry. *Minnesota.*

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GEORGE RUDOLF ANDERSON, A.B., Northern Michigan College of Education, 1928; A.M., Michigan, 1934. Effects of rigid public utility rates in depression. 1945. *Michigan.*

JAMES WHITNEY BUNTING, B.S., Pennsylvania, 1934; M.A., 1936. Economic theory and development of railroad distance rate scales. 1945. *Pennsylvania.*

WILLIAM H. BRAY, A.B., Oberlin, 1938; A.M., 1939. The regulatory activities of the Ohio Public Utilities Commission. 1943. *Cornell.*

GRACE CHINN, A.B., Washington, 1940; A.M., 1942. Waterworks for public control in Chinese history: in the beginning and at the end of Imperial China. 1944. *Columbia.*

FREDERICK N. DANNENBERG, B.S., New York, 1936; M.B.A., 1937. The economic significance of the evaluation of public utility accounting. *New York.*

RAYMOND CHARLES DEIN, B.S., Nebraska, 1930; M.A., 1935. The intangibles of the public utility rate base and accounting theory. 1943. *Minnesota.*

JOEL B. DIRLAN, B.A., Yale. Security regulation under the public utility holding act. 1944. *Yale.*

HUGH NORMAN EMERSON, A.B., Johns Hopkins, 1930; M.B.A., Pennsylvania, 1932. Petroleum transportation. 1945. *Pennsylvania.*

JOSEPH P. GOLDBERG, B.S.S., College of the City of New York, 1937; A.M., Columbia, 1938. Railroad rates: their basis and nature, 1830-61. 1944. *Columbia.*

HENRY WELDON HEWETSON, A.B., Toronto, 1924; A.M., British Columbia, 1925. The financial history of the Canadian National Railway. 1943. *Chicago.*

SAMUEL S. HILL, A.B., Yale, 1923; M.B.A., New York, 1939. Cost finding in transport regulation. 1944. *American.*

H. THEODORE HOFFMAN, B.S., Dayton, 1929; M.A., American, 1938. History of the development of railroads in Colombia. 1945. *American.*

EDWIN HUGHES, A.B., Williams, 1919; A.M., 1934. The Ontario hydroelectric development. 1944. *Columbia.*

ANNA HULSE, B.S., New York, 1926; A.M., 1927. Niagara-Hudson and New York State—financial, historical and social aspects of development. 1945. *Columbia.*

WILLIAM HARRY JOUBERT, B.S., Florida, 1933; M.S., 1935. The history of the freight rate structure of the southern territory. 1943. *North Carolina.*

CHARLES V. KINTER, A.B., Arizona, 1931; S.M., Northwestern, 1937. The economics of the newspaper industry. 1944. *Chicago.*

MARION S. LEWIS, A.B., Trinity, 1918; A.M., 1921. An evaluation of the holding company abuses alleged in the public utilities act of 1935. 1943. *Chicago.*

RAYMOND E. LISLE, B.S., College of the City of New York, 1929; A.M., Columbia, 1930. The public utilities and New York State politics, 1881-1907. 1945. *Columbia.*

DANIEL MARX, JR., A.B., Dartmouth, 1929. United States Maritime Commission, 1936-40. 1944. *California.*

LEONARD L. MINTHORNE, A.B., Southern California, 1919; M.A., Columbia, 1922. The Inter-American Highway—its economic aspects. 1945. *Columbia.*

THORNTON W. MITCHELL, A.B., Stanford, 1937; A.M., 1939. Federal regulation of railroads, 1865-87. 1944. *Columbia.*

JOHN JOSEPH RELLAHAN, A.B., Wisconsin, 1923; A.M., 1927. Economic and legal problems in the coördination of petroleum pipe line transportation. *New York.*

GEORGE ALEXANDER SCOTT, B.A., Alberta, 1938; M.B.A., Pennsylvania, 1940. Railroad reorganization under Section 77. 1945. *Pennsylvania.*

EDWIN R. THIELE, A.B., Emmanuel Missionary, 1918; A.M., Chicago, 1937. Land transportation in ancient Mesopotamia. 1943. *Chicago.*

WILLIAM WAY, JR., A.B., North Carolina, 1926; A.M., 1929. Railroad passenger fares and services. 1945. *Pennsylvania.*

Agriculture; Forestry; Fisheries

Degrees Conferred

ALFRED DAVID FOLWEILER, Ph.D., Wisconsin, 1943. Ownership of forest land in selected parishes in Louisiana and its effect on forest conservation.

LLOYD C. HALVORSON, Ph.D., Minnesota, 1943. The use of normal prices by the Farm Credit Administration.

LOUIS F. HERRMANN, Ph.D., Minnesota, 1942. A study of rates of feeding and milk production in some West Virginia herds.

OTIS T. OSGOOD, Ph.D., Minnesota, 1942. Farm organizations for upland areas in the eastern Ozarks.

ROY ESTES PROCTOR, Ph.D., Minnesota, 1942. Factors influencing farm organization in a general livestock area in Kentucky.

BENJAMIN HENRY PUBOLS, Ph.D., Harvard, 1943. The agricultural development of the Columbia basin irrigation project.

EVERETT CARL WEITZELL, Ph.D., Wisconsin, 1943. The economics of soil conservation in West Virginia.

WILLIAM TATE WHITMAN, Ph.D., Duke, 1943. The forest products industries of the South and future employment possibilities.

ROBIN MURPHY WILLIAMS, Ph.D., Harvard, 1943. The sociology of farmers' responses to A.A.A. programs in selected areas in Kentucky, 1938-1940.

SHU-CHIA YANG, Ph.D., Minnesota, 1942. A study of the Chinese economy with special reference to farm credit.

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E. LLOYD BARBER, B.A., Saskatchewan, 1938; M.A., Clark, 1939. Price and production uncertainties in agriculture. 1944. *Iowa State.*

DAVID G. BASILE, A.B., Washington and Lee, 1936; M.A., Columbia, 1939. Land utilization in highland Ecuador. 1946. *Columbia.*

STEWART BELL, JR., B.A., Hampden-Sydney, 1931; M.A., Virginia, 1940. Industrial farm relationships in Henry County, Virginia. 1944. *Virginia.*

OSWALD H. BROWNLEE, B.S., Montana State, 1938; M.S., Iowa State, 1941. Production and income effects of agricultural subsidies. 1943. *Iowa State.*

WILLARD WESLEY COCHRANE, B.S., California, 1937; M.S., Montana State, 1938; M.P.A., Harvard, 1942. Evaluation of the county land use planning movement. *Harvard.*

WALTER P. COTTON, B.S.A., Tennessee, 1932; M.S., 1933. A study of subsidies to agriculture provided by governmental credit agencies. 1944. *Minnesota.*

FRANCES E. CORNWALL, A.B., Middlebury, 1940; A.M., Columbia, 1943. Vermont farm organizations. 1944. *Columbia.*

JOHN H. DAVIS, B.S., Iowa State, 1928; M.A., Minnesota, 1935. An analysis of the policies of insurance companies in the management and resale of farms in Iowa since 1920. 1944. *Minnesota.*

JOSEPH EATON, B.S., Cornell, 1940. Coöperative group farming in the United States of America. 1945. *Columbia.*

GERALD ENGELMAN, B.S., Iowa State, 1937. Problems involved in the sale of slaughter livestock on the basis of carcass weight and grade. 1945. *Minnesota.*

ABRAM W. EPP, B.S., Nebraska, 1933; M.A., 1937. An economic study of the place of forage production in the southeast grain and livestock area of Nebraska. 1944. *Minnesota.*

OTTO JOHN FIRESTONE, Dr. Juris., Vienna, 1939; A.M., McGill, 1942. Canadian agriculture before 1867. 1945. *McGill.*

WILLIAM LLOYD GIBSON, B.S., Virginia Polytechnic, 1933; M.S., 1934. An economic land classification of Halifax County, Virginia. 1943. *Virginia.*

HAROLD GRAHAM HALCROW, B.S., North Dakota Agricultural, 1937; M.S., Montana State, 1938. The demand for beef in the United States. 1943. *Chicago.*

D. GALE JOHNSON, B.S., Iowa State, 1938; M.S., Wisconsin, 1939. The theory of forward prices for agricultural products. 1944. *Iowa State.*

PHILLIP EUGENE JONES, B.S., Tennessee, 1938; M.S., Louisiana State, 1940; A.M., Harvard, 1942. Needed adjustments for the cotton South. *Harvard.*

HAROLD C. LARSON, B.S., South Dakota State, 1929; S.M., Kansas State, 1930. A critique of farm credit policies. 1944. *Wisconsin.*

FRANK MILLER, M.A., Nebraska, 1937. Analysis of the use and experiences with agricultural credit in representative Nebraska counties. 1944. *Minnesota.*

ARTHUR THEODORE MOSHER, B.S., Illinois, 1932; M.S., 1941. The place of the central Indo-Gangetic Plain in world agriculture. 1943. *Chicago.*

ALVAN D. ODERKIRK, B.S., North Dakota Agricultural; M.S., Iowa State, 1928. A study of frozen and dried eggs as a market outlet for midwest poultry producers. 1944. *Minnesota.*

PHILIP MARTIN RAUP, A.B., Kansas, 1939; A.M., Wisconsin, 1942. Public land management in the United States. *Wisconsin.*

LEONARD A. SALTER, JR., M.A., Connecticut, 1935. A critical examination of research in land economics. 1944. *Minnesota.*

FRED HUGO SANDERSON, Licencie e Sciences Economiques, Geneva, 1935; A.M., Harvard, 1942. Methods of crop forecasting. 1943. *Harvard.*

SOLOMON SINCLAIR, B.S.A., Saskatchewan, 1932; M.S., 1937. The rôle of subsidies in farm credit. 1944. *Minnesota.*

JOHN H. SITTERLEY, B.S., Ohio State, 1928; M.S., 1932 Adjustments in farming at the extensive margin. 1944. *Ohio State.*

J. LLOYD SPALDING, B.S., Iowa State, 1936; Ph.M., Wisconsin, 1938. Inheritance as a function of the agricultural ladder. 1945. *Minnesota.*

JOHN FRANCIS TIMMONS, B.S., Missouri, 1937; A.M., 1938. Economic and social aspects of the devaluation of agricultural land through inheritance, gift, and will. 1943. *Wisconsin.*

HADLEY VAN VLIET, B.S.A., Saskatchewan, 1934; S.M., 1936. An analysis of agricultural land tenure in Saskatchewan. 1943. *Wisconsin.*

Economic Geography; Regional Planning; Urban Land; Housing

Degrees Conferred

Dean William Blackburn, Ph.D., Wisconsin, 1943. Some concepts of regionalism and their application to Arkansas.

Alvin Charles White, Ph.D., Illinois, 1943. An economic analysis of the housing problem in the United States.

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George Taylor Conklin, A.B., Dartmouth, 1936; M.C.B., 1937. The changing economic basis of New York City. 1943. ***New York.***

Theses in Preparation

Eleanor Sauer Bagley, A.B., Mt. Holyoke, 1936; A.M., Columbia, 1937. Federal Housing Administration. 1944. ***Columbia.***

Millard Clark Faught, A.B., Columbia, 1938; M.S., 1939. The problems of a resort community—a socio-economic study of Falmouth, Massachusetts. 1944. ***Columbia.***

Walter Irving Firey, Jr., A.B., Washington, 1938; A.M., 1940; A.M., Harvard, 1943. The rôle of social values in urban land use patterns. 1944. ***Harvard.***

Howard Naylor Fitzhugh, B.S., Harvard, 1930; M.B.A., 1933. Improved housing for New York City middle-class Negro families. 1944. ***Columbia.***

Arthur Cort Holden, Litt. B., Princeton, 1912; B. Arch., Columbia, 1915; A.M., Columbia, 1915. Evidence of change in the theory of rent—trends toward reorganization of real estate. 1944. ***Columbia.***

Louis Albert Keller, B.A., Carroll, 1927; M.B.A., Northwestern, 1928. The utilization of land for outdoor recreation: a study of the interrelations of urbanization and outdoor recreation in the Milwaukee area. ***Northwestern.***

Donald W. O'Connell, A.B., Columbia, 1937; A.M., 1938. The scope and applicability of the theory of industrial location. 1944. ***Columbia.***

David Woodrow Parvin, B.S., Mississippi State, 1938; M.S., 1941. A statistical study of the socio-economic status of Mississippi. 1944. ***Virginia.***

Katherine Perring, A.B., Grinnell, 1932; M.B.A., New York, 1940. Comparative costs in deurbanization. ***New York.***

Alfred G. Smith, Jr., A.B., Columbia, 1934; A.M., 1939. Some aspects of location theory, with special reference to the southeastern states. 1945. ***Columbia.***

Thomas R. Smith, A.B., Swarthmore, 1933. The textile industry of Fall River: a study in industrial location. 1946. ***Columbia.***

Labor and Industrial Relations

Degrees Conferred

Lloyd Harding Bailer, Ph.D., Michigan, 1943. Negro labor in the automobile industry.

Rev. Vincent Ignatius Breen, Ph.D., Catholic. The United States conciliation service. (Published by Catholic University of America Press.)

Robert Kenneth Kavanaugh Burns, Ph.D., Chicago, 1942. Collective bargaining and arbitration: the case of the daily newspaper industry.

Rev. Bernard Cornelius Cronin, Ph.D., Catholic, 1943. Peter C. Yorke and the labor movement in San Francisco, 1900-1910. (Published by the Catholic University of America Press.)

Hilda Kessler Gilbert, Ph.D., Wisconsin, 1943. The Department of Labor in the New Deal period.

STUART MARSHALL JAMIESON, Ph.D., California, 1943. Labor unionism in American agriculture.

KEITH WHITAKER JOHNSON, Ph.D., Duke, 1943. Racial division of labor and the American Negro.

HOWARD STANLEY KALTENBORN, Ph.D., Wisconsin, 1943. Government and the adjustment of labor disputes.

RICHARD MORECRAFT KIRBY, Ph.D., Harvard, 1943. The wage policy of the United Mine Workers.

REV. JOSEPH DAVID MUNIER, Ph.D., Catholic, 1943. Some American approximations to Pius XI's *Industries and Professions.*

JOSEPH SHISTER, Ph.D., Harvard, 1943. Some aspects of union wage policies.

BERNICE VIRGINIA WESTERLUND, Ph.D., Illinois, 1943. Illinois' experience with minimum wage legislation.

CONSTANCE WILLIAMS, Ph.D., Chicago, 1942. Reëmployment programs in four Massachusetts textile cities, 1928-40.

RICHARD HARVEY WOOD, Ph.D., Princeton, 1942. Recent developments affecting the profit sharing plans of the Eastman Kodak Company, The Procter and Gamble Company, and Sears, Roebuck and Company.

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HOWARD LAWRENCE HURWITZ, A.B., Brooklyn, 1936; A.M., Columbia, 1937. Theodore Roosevelt and labor in New York State, 1880-1900. *Columbia.* (Published by Columbia University Press as Study No. 500 in History, Economics and Public Law.)

VAN DUSEN KENNEDY, A.B., Swarthmore, 1935. Some aspects of union participation in wage incentive methods. *Columbia.*

MARY KLEMM, A.B., Oregon, 1930; A.M., Wisconsin, 1940. Some rivals of the A.F.L. and C.I.O.—a study of unaffiliated unions. 1943. *Wisconsin.*

HERBERT JAY LAHNE, B.B.A., College of the City of New York, 1936; M.A., Columbia, 1937. The cotton mill worker in the twentieth century. *Columbia.* (Published by Farrar and Rinehart.)

JOHN LOMBARDI, B.S., College of the City of New York, 1919; A.M., Columbia, 1935. Labor's voice in the Cabinet: a history of the Department of Labor since its origin in 1921. *Columbia.* (Published by Columbia University Press as Study No. 496 in History, Economics and Public Law.)

PHILIP C. NEWMAN, A.B., Columbia, 1938; A.M., 1940. The labor legislation of New Jersey. *Columbia.*

SMITH SIMPSON, B.S., Virginia, 1927; M.S., 1928; LL.B., Cornell, 1931. The Washington hours convention. 1943. *Columbia.*

Theses in Preparation

DANIEL J. AHEARN, A.B., Fordham, 1930; LL.B., 1933; J.S.D., New York, 1934. The wages of farm laborers and factory laborers. 1944. *Columbia.*

ROBERT J. ALEXANDER, A.B., Columbia, 1940; A.M., 1941. The labor and socialist movements of Latin America. 1945. *Columbia.*

GERHARD BRY. Wages in Germany. 1945. *Columbia.*

JAMES E. CHACE, JR., A.B., Amherst, 1923; M.B.A., Harvard, 1925. Analysis of qualifications of benefits under unemployment compensation administration. 1943. *Chicago.*

JAMES HERSCHEL COFFEE, B.A., West Texas State Teachers, 1925; M.A., Southern California, 1936. Wage control policies of the federal government in the Second World War. 1944. *Texas.*

Raymond R. Colton, B.S., College of the City of New York, 1931; A.M., Columbia, 1932. Management and the National Labor Relations act. 1944. *Columbia.*

Gwendolyn Stager Crawford, B.A., Wilson, 1941; M.A., Virginia, 1943. The wage policies of the War Labor Board. 1945. *Virginia.*

Lucien Simington Curtis, A.B., Howard, 1916; A.B., Harvard, 1919; A.M., Columbia, 1925. A critical examination of criteria for determining the salaries of teachers. 1943. *Chicago.*

James Stemble Duesenberry, A.B., Michigan, 1939; A.M., 1941. Wages in the automobile industry. 1945. *Michigan.*

Gerald John Fischer, A.B., Rutgers, 1939. A study of the cyclical behavior of labor productivity and unit labor cost in selected American industries. 1944. *Princeton.*

Elbert Courts Flora, A.B., North Dakota State Teachers, 1932; M.B.A., Chicago, 1940. Recent developments toward a more effective employment market. 1943. *Chicago.*

Roland Gibson, A.B., Dartmouth, 1935. A comparison of cotton textile wages in Great Britain and the United States, 1860-1938. 1944. *Columbia.*

Abraham Louis Gitlow, A.B., Pennsylvania, 1939; A.M., Columbia, 1940. Labor relations in the power laundry industry. 1944. *Columbia.*

Joseph Glatt, Licencie, Brussels, 1934 and 1937. The labor situation in Palestine. 1945. *Columbia.*

Sonia Steinman Gold, A.B., Hunter, 1938. The process of readjustment after World War I, with special emphasis on shifts in the labor market. 1944. *Columbia.*

W. Griffiths, A.B., Worcester, 1928; B.D., Union Theological, 1931; A.M., Wisconsin, 1939. The relation of the American churches to organized labor, 1877-96. 1943. *Chicago.*

Jonathan Grossman, B.S.S., College of the City of New York, 1936; A.M., Columbia, 1937. Sylvis and the labor movement. 1944. *Columbia.*

Gertrude Guyton, A.B., Colorado State College of Education, 1940. Valuations in employment; a study of individual firms. 1945. *Johns Hopkins.*

Harold Lloyd Henderson, A.B., McGill, 1940; A.M., 1941. Wartime labor relations in Canada. 1945. *McGill.*

Louis Hoffer, A.B., College of the City of New York, 1930; A.M., Columbia, 1932. Unemployment compensation and seasonal variations in employment in New York State. *New York.*

Rev. Charles Edward Hogan, A.B., St. Mary's, 1930. Collective bargaining in steel. 1944. *Catholic.*

John Bernard Hogg, B.S., Slippery Rock State Teachers, 1931; A.M., Pittsburgh, 1935. The Homestead steel strike of 1892. 1943. *Chicago.*

Kia Hsieh, A.B., National Tsing Hua University, 1934; A.M., Columbia, 1943. The problems of wage protection in Chicago. 1945. *Columbia.*

Barbara Anna Jarzembowski (Mitchell), A.M., Columbia, 1941. International labor standards in Poland. 1945. *Columbia.*

John E. Jeuck, A.B., Chicago, 1937; M.B.A., 1938. The labor market and department store personnel. 1943. *Chicago.*

Matthew Arnold Kelly, A.B., Amherst, 1936; A.M., Princeton, 1940. The public regulation of the hours of work of laborers and mechanics in the employ of the federal government. 1944. *Princeton.*

Joseph Kershaw, A.B., Princeton, 1935; A.M., New York, 1938. Settlement of American railroad disputes since 1926. 1944. *Columbia.*

Charles Clinton Killingsworth, A.B., Southwest Missouri State Teachers, 1938; A.M., Oklahoma Agricultural and Mechanical, 1939. State labor relations legislation. 1944. *Wisconsin.*

Theodore Russell Larimore, B.S., Indiana, 1928; M.S., Illinois, 1931. Economic implications and administrative procedures of the Nebraska Unemployment Compensation act. *Nebraska.*

Lester Herman Leiser, Ph.B., Chicago, 1928; M.A., Columbia, 1932. Teachers' wages and standards of living in the United States. 1945. *Columbia.*

Jacob Loft, B.S., College of the City of New York, 1937; A.M., Columbia, 1938. Twentieth century printing labor. 1943. *Columbia.* (Published by Farrar and Rinehart.)

Jesse W. Markham, A.B., Richmond, 1941. North-South wage differentials in manufacturing industries. 1945. *Johns Hopkins.*

Rev. James Joseph McGinley, A.B., George Washington, 1933; A.M., 1934; A.M., Fordham, 1937. The labor problem in the transit system of the City of New York. 1945. *Columbia.*

Aurelius Morgner, B.S., Missouri, 1938; M.A., 1940. Government intervention in the labor market. 1945. *Minnesota.*

Hollis Freeman Price, A.B., Amherst, 1927; A.M., Columbia, 1933. Negro factory labor in Memphis. 1945. *Columbia.*

George Stern Quick, A.B., Michigan, 1938; A.M., 1939. The historical development of labor in Sao Paulo, 1888-1930. 1944. *Michigan.*

Arthur Hallam Reede, A.B., Pennsylvania State, 1931; A.M., 1932. Adequacy of workmen's compensation. 1944. *Columbia.*

Harold S. Roberts, B.S.S., College of the City of New York; M.A., Columbia, 1938. Labor organization and collective bargaining in the rubber industry. 1944. *Columbia.*

Mae Katzen Salzer, A.B., Brooklyn, 1934; A.M., Columbia, 1935. The hours question. 1944. *Columbia.*

Sister Mary Yolande Schulte, O.S.F., A.B., College of Saint Teresa, 1931; A.M., Catholic, 1940. Wage theories in the Fair Labor Standards act. 1944. *Catholic.*

Harry Schwartz, A.B., Columbia, 1940; A.M., 1941. Agricultural labor in the twentieth century. 1945. *Columbia.*

Myrna Siegendorf, A.B., New Jersey College for Women, 1939; A.M., Wisconsin, 1940. Unionism in the distributive trades. 1943. *Wisconsin.*

David Kenneth Spiegel, B.S., New York, 1939; A.M., 1940. The administration of minimum wage legislation. 1945. *New York.*

Ben Solomon Stephansky, A.B., Wisconsin, 1939; A.M., 1942. The interrelation of trade unionism and government. 1944. *Wisconsin.*

Marie Streuver, A.B., Brooklyn, 1935; A.M., Columbia, 1936. Labor relations in the milk distribution industry. 1944. *Columbia.*

Philip H. Trezise, A.B., Michigan, 1936; A.M., 1939. Union-management coöperation. 1945. *Michigan.*

Robert Tannenbaum, A.B., Chicago, 1937; M.B.A., 1938. A study of collective bargaining in the meat packing industry. 1943. *Chicago.*

Albert Westefeld, A.B., Columbia, 1935. Getting started: urban youth in the labor market. 1943. *Columbia.*

Thomas F. Whitney, A.B., Amherst, 1937; A.M., Columbia, 1939. Russian legislation in industrial labor. 1944. *Columbia.*

John Harvey Wills, B.S., Massachusetts Institute of Technology, 1926; A.M., Princeton, 1940. Studies of the New Jersey labor market. 1943. *Princeton.*

Viola Wyckoff, B.S., New York, 1930; A.M., 1933. Employment effects of public works expenditures. 1944. *Columbia.*

Social Insurance; Relief; Pensions; Public Welfare

Degrees Conferred

Gerhard Gustav Frederick Hartman, Ph.D., Chicago, 1942. Hospital malpractice insurance.

Taulmar A. Miller, Ph.D., Yale, 1943. Economic effects of the experience rating provision of the Indiana Employment Security act.

Theses Completed and Accepted

George F. Rohrlich, Dr. Juris., Vienna, 1937; Dip. Consular Academy of Vienna, 1938. Adequacy and solvency in unemployment compensation: the need for federal equalization. 1943. *Harvard.*

Theses in Preparation

Beatrice Gomberg (Reubens), A.B., Brooklyn; A.M., Columbia. The war and economic insecurity in Great Britain. 1944. *Columbia.*

Arthur Gwynn Griffin, A.B., North Carolina, 1921; A.M., 1923. Financing old-age annuities and assistance under social security legislation. 1944. *North Carolina.*

Henrietta Liebman (Creamer), A.B., Cornell, 1932; A.M., Columbia, 1933. Relief and changes in national income. 1944. *Columbia.*

Leo Weitz, B.S.S., College of the City of New York, 1928; A.M., Columbia, 1932. Family allowances as a post-war measure. 1944. *Columbia.*

Benjamin Monroe Wofford, B.A., Texas, 1936; M.A., 1940. The operation of workmen's compensation in Texas. 1945. *Texas.*

Consumption; Income Distribution; Coöperation

Degrees Conferred

Elmo Louis Jackson, Ph.D., Harvard, 1942. The consumption of tobacco products; a descriptive economic analysis, United States, 1900-1940.

Donald Rhodes Kaldor, Ph.D., Iowa State, 1942. An economic study of "low-income" in Iowa agriculture.

Frances Wells Quantius, Ph.D., Wisconsin, 1943. The propensity to consume.

Seng Tancharoensukh, Ph.D., Harvard, 1942. A study of the coöperative movement in Thailand.

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Mary Mazeppa Crawford, A.B., Wellesley, 1922; A.M., Columbia, 1930. Student folkways: spending at Indiana University. *Columbia.* (Published by Columbia University Press as Study No. 499 in History, Economics and Public Law.)

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Esther Pelton Burnett, A.B., Stanford, 1937; A.M., Columbia, 1940. Food subsidies and national nutrition policy. 1944. *Columbia.*

Anna Di Venuti, B.S., Boston, 1940; M.S., Columbia, 1941. Consumption: a focal area in the post-war economy. 1944. *Boston.*

Walter Dummer Fisher, A.B., Harvard, 1937. The consumer demand for lemons in the United States. 1943. *Chicago.*

Edward E. Garrison, B.S., Kent State, 1936; M.B.A., Ohio State, 1938. Compensation of wholesalers' salesmen. 1944. *Ohio State.*

Gertrud Berta Greig, B.S., New York, 1931; A.M., Bryn Mawr, 1933. A study of consumer choice. 1944. *Columbia.*

HARLOW W. HALVORSON, B.S., Minnesota, 1938; M.S., 1940. A study of agricultural income and its relation to national income. 1945. *Minnesota.*

JOHN HOPE, II, A.B., Morehouse, 1930; A.M., Brown, 1932. Credit problems of low income groups. 1943. *Chicago.*

CLAUDE MALCOLM ISBISTER, A.B., Manitoba, 1934; A.M., Harvard, 1942. Patterns of consumer expenditure in Canada. 1943. *Harvard.*

SIDNEY M. LERNER, A.B., Wisconsin, 1936; A.M., 1938. Geographic distribution of income in Wisconsin. 1943. *Wisconsin.*

HORACE HANSON WASHBURN, B.S.C., Wyoming, 1930. Coöperative credit for the consumer. 1943. *Wisconsin.*

ALBERT EDMUND WAUGH, B.S., Massachusetts Agricultural, 1924; M.S., Connecticut Agricultural, 1926. Problems in measuring inequality in the distribution of personal incomes. 1943. *Chicago.*

Population; Migration; Vital Statistics

Degrees Conferred

ROLLIN CHAMBLISS, Ph.D., Harvard, 1943. A statistical analysis of variation in the human sex ratio at birth.

Theses in Preparation

SRIPATI CHANDRASEKHAR, A.B., Madras, 1938; A.M., 1940. The population problem in India. 1944. *New York.*

FRANCES WILSON GRIEBE, B.S., New York, 1926; A.M., 1933. The economic aspects of the refugee problem. 1944. *New York.*

MRS. ROSE KIESLER, A.B., Hunter, 1932; M.A., Columbia, 1933. Changing population patterns of the northern Appalachian plateau. 1946. *Columbia.*

THOMAS EDWARD MURPHY, B.S., New York, 1934; A.M., 1937. Cycles in diseases. *New York.*

Unclassified Items

Degrees Conferred

EGON ERNEST BERGEL, Ph.D., Harvard, 1942. The class phenomenon.

THEODORE WENTWORTH SPRAGUE, Ph.D., Harvard, 1942. Some problems in the integration of social groups, with special reference to Jehovah's Witnesses.

Theses in Preparation

BARNETT SANFORD EBY, A.B., Southern California, 1927; Th.B., Princeton Theological, 1935; A.M., Princeton, 1942. Economics and the concept of justice. *Princeton.*

GENEVIEVE KNUPFER, A.B., Wellesley; A.M., Columbia, 1938. The measurement of social economic status. 1944. *Columbia.*

B. L. SMITH, Ph.B., Chicago, 1933. A socio-political study of the American social scientists. 1943. *Chicago.*

E. H. SPICER, A.B., Arizona, 1932; A.M., 1933. A study of the relationship between the economic life and the social organization of a group of Yaqui Indians near Pascua, Arizona, with the purpose of discerning the basis of their social integration. 1943. *Chicago.*